

Hi everyone.

What an exciting few weeks we have all experienced. The rugby world cup brings hard, closely fought games which promise much as we move into the semi-finals. Can we do it for a fourth time? We will know in less than two-week's time. Go the All Blacks!!!! Then (finally) we had the elections. Not all of us may like the outcome but that's democracy for you. More on this later.

At work level we continue to see high demand for rental properties. We have never been so busy. So busy in fact that we will be welcoming Desiree Stevens onto our team in the new year as we enter the hectic times of summer. From Christmas until March are traditionally our busiest months though this year it has been hard to see a winter slowdown.

And being busy has also been productive. It has taken 16 years but our office is officially the largest Quinovic office in the country - at least for now. This is a credit to my current team and to those who preceded them. We strive to build our business on hard work, honesty and professionalism. Something's working as we continue to have several clients who have been with us for most of those 16 years. The challenge of course will be to stay on top! We thank you all for your trust and support

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So, the elections. According to many in the media landlords across the country will be rejoicing Nationals win. Certainly, the previous Government introduced regulations to the detriment of landlords. They said that they were protecting tenants but indirectly these new regulations worked against tenants as well as increasing costs to landlord's resultant from the changes were passed on by means of rent increases. Without doubt rent increases have been impacted as well by inflation and a shortage of rental properties but those legislative changes were the big contributor.

Both National and ACT have policies more friendly to investors. They campaigned with promises to wind-back several of the changes introduced by Labour.

So what changes are expected – in fact promised - by National – ACT?

- To again allow landlords to claim interest on mortgages as a legitimate tax claim
- To wind-back the bright-line test from 10 years to 2 years
- To re-introduce the 90 days 'no cause' eviction criteria.

In addition, National has promised to allow foreign buyers into the market – albeit restricted to properties worth more than \$2 million and albeit with a new over-riding tax.

Landlords have responded positively, indicating they will purchase more properties for rental to help fill the current significant shortfall in the market.

Landlords are also hopeful that the extreme rhetoric voiced by Labour and Greens which branded private landlords as 'the bad guys' will be reversed and that respect will again exist between landlords and tenants.

So, all that matters now is just how quickly these changes are introduced. No doubt these will form part of coalition talks between National and ACT – and maybe even New Zealand First.

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Fear has been expressed by some that National – ACT policies will reignite the housing market. National prices have experienced a significant fall over recent months but are expected to stabilise now the election is over. Economists don't necessarily agree.

Corelogic economist Kelvin Davidson – “Nationals policies may tend to drive prices up. But they won't change stretched affordability, high mortgage rates and possible new legislation around debt-to-income ratios being introduced by the Reserve Bank. Potentially, in the medium term, there may be pressure on prices if the Resource Management Act reform is back-pedalled with resultant lower push on brownfield land and more intensified housing. Although I'm not sure the change will be huge and it is uncertain over long horizons anyway – we never know the counterfactual”.

Gareth Kiernan, chief forecaster for Infometrics – “A new Government could give house prices a boost but they will be limited by affordability pressure and alternative returns available given higher interest rates”.

Brad Olsen, Chief Executive Infometrics – “Interest rate have more influence over house prices than Government policy”.

Time will tell.

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On the matter of tax deductibility, we came across this article on the New Zealand Property Investors website.

*“There is much misunderstanding around the deductibility of mortgage interest for tax purposes relating to residential investment property.*

*If the Government-controlled Air New Zealand raises a loan to buy a new airliner they can – and they do – deduct the interest cost of that loan off their income before calculating their taxable profit. If that deductibility is a 'tax advantage', a 'tax break', or a loophole then surely the Government should disallow that for Air New Zealand. But they don't. The reality is that every single business in New Zealand, from a brothel to a Bank, is permitted to deduct their interest costs in such a manner – apart from those who provide rental housing.*

*And yes, both MBIE and OSH define residential renting as a business.*

*There are those who claim that as home owner-occupiers cannot deduct their mortgage interest costs, then why should landlords?*

*Consider the situation if you or I borrow money to buy a new car.*

*Having got that car, we then derive a benefit from owning it – we can move ourselves around, go to work, carry stuff or go sightseeing. That benefit obviously has value, but we are not required to pay any tax on the value of that benefit.*

*Because we have a non-taxable benefit then we cannot deduct our car loan interest off that non-existent tax.*

*Should we, instead of using that car for our own needs, operate it as a taxi we derive a very different benefit from that car ownership – we get a cash income from the fares people pay us. But, unlike before, we are now required to pay income tax on that benefit.*

*Because we have a taxable benefit then we can deduct our car loan interest off that taxable income.*

*Housing used to be, and should be, treated in a similar fashion.*

*The owner-occupier of a house derives a valuable benefit – shelter - from living in their house but pays no tax on that benefit whereas the landlord pays tax on the benefit – cash income – they receive.*

*That is the logical reason for the difference in treatment of the cost of mortgage interest.*

*Imposing this regime on residential landlords seem to have been done not to raise tax money but to pursue an agenda that seeks to eliminate private sector landlords.*

*Jane is a school teacher. She is now in her late-40s and has been thinking about how she will live in retirement. Seeing the need for an additional income above the universal pension she invested her savings into an apartment that she now rents out to a tenant.*

*Up until recently, the rent she received covered the rates, insurance, and mortgage interest payments on that apartment, with a little bit left over for maintenance.*

*She is now suffering the impact of the tax burden imposed by the recently legislated inability to deduct her mortgage interest costs from her taxable income. Jane is now being taxed on fictitious earnings, earnings that don't really exist.*

*Already, with that tax now being imposed at the 50% level, she is having to subsidise that apartment by \$200 each week, and if the non-deductibility reached 100% that will cost her \$400 each and every week.*

*On her fixed salary, she just cannot afford that. Jane's only option is to sell the apartment.*

*Almost certainly her tenant will not be able to buy it, so the buyer may well be someone coming out of a relationship breakup or a younger person moving out of a parental home. In those cases, that's one less rental house available in the market.*

*So what of the tenant?*

*It is highly likely that, given the current shortage, her ex-tenant will end up on the Government housing waiting list and moving into a motel that costs the taxpayer \$1000 per week or into Kainga Ora house where, on average, the taxpayer subsidises each and every house by over \$16,000 every year.\**

*Bought in against the advice not only of landlord groups but also against the advice of tenant groups and the Government's own advisors who could see that this would rapidly become a costly 'tenant tax', this is making life so difficult for people like Jane. As people like her sell up, tenants are moved out of cost-effective private sector rental housing into high-cost state accommodation that require substantial never-ending taxpayer subsidies far exceeding any possible cost recovery from such a Landlord tax.*

*The Government – any Government – is actually losing money by retaining this targeted and punitive tax imposition. It should be removed, not by a staged removal over three years as some political parties now propose, but immediately, which will lessen the costs both to taxpayers and tenants.*

*\* Figures from Kainga Ora's 2021 annual report show public housing rental income was \$1.43b, of which \$1.04b was subsidies from the Government. With 64,206 Kainga Ora properties, and if the taxpayer-funded subsidy received is divided by that number it equates to taxpayer funds of \$16,260 per property in that year.)*

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According to a recent study, tenants who live in public housing have better levels of wellbeing than tenants in private rentals.

The study was done as part of Government funded work led by the University of Otago. It included residents across public housing, private rentals and people who owned their own home.

The research concluded that this was due to length of term that a tenant had been in a property. The longer a tenant had been in a private rental (a decade or two) then the wellbeing outcomes were very similar at those in state housing. Tenants in long-term rentals had similar wellbeing to those in their own home.

Arthur Grimes, who led the study, said he was surprised by the results of the survey.

“To get into public housing you have to meet some pretty major tests of essentially multiple deprivations and one would expect that, given those life circumstances, people in public housing would be less happy than others yet they are definitely a lot happier with their lives than people in private tenancies and about as happy as owner-occupiers”.

Grimes commented that some of the public housing tenants surveyed were not paying income-related rents so the difference could be due simply to the cost of housing being less. However, some in private accommodation were receiving the accommodation supplement.

“What we found is that people who had been in private tenancies for a long time were happy. This implies that people with stable tenancies have a higher wellbeing”.

Grimes mentioned that New Zealand was an outlier in that long-term private rental arrangements are uncommon. “Our tenancies are very short. Imagine being a family with young children in a private tenancy and not knowing whether you’re going to be there in six months, what school your children will go to, what doctor you’ll go to. It must be terrible. What this research suggests is we need to find a way to give private tenants more security”.

(ED: With all respect to the survey, we need to ask – what landlord will evict a tenant for no cause? It is costly to find new tenants. The lease agreements may be seen to be short-term but we suggest that the average length of tenancy is much longer. Where we offer tenants a lease roll-over they are, in nearly all cases, accepted. Those that aren’t are because the tenant wishes to move on.)

Finally, an interesting one from the Tenancy Tribunal.

A landlord wished to claim against the tenants. Upon vacating the property, the tenant had left behind rubbish, hadn’t cleaned and had lost keys.

The application was declined.

The reason. The tenant was the Chinese Embassy. They were deemed to be ‘a sovereign state’ and the matter could not be heard in New Zealand courts.

We don’t have a lot of Embassy staff from any country in Christchurch but something to be aware of.

(ED. There has always been significant anecdotal hearsay about issues with leasing properties to embassies. These range from a sense of entitlement, to a feeling of ‘we pay high rent so live with the problems’ to ‘we are exempt of the rules. Having said that I had the Colombian Embassy in a property for 5 years and they were perfect tenants.)

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Best wishes Sharon