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Filling the information gap

The recent Government housing policies appear to have been implemented without much information about the likely outcomes. There was also lack of time for impact statements to be produced by Inland Revenue and Treasury. In order to fill the information gap, the New Zealand Property Investors Federation (NZPIF) conducted a survey to see how these changes will affect the rental property industry.

Conducted from the 29th March to the 2nd April, the aim of the survey was to understand how the proposed changes to tax deductibility and the extension of the Bright Line test would affect rental home providers. Survey Monkey was used and there were 1719 respondents, with the majority being members of one of the 18 Property Investors Associations throughout the country.

The findings show that the Government's new tax laws will substantially affect just over 90% of the rental property owners who responded, increasing costs by around $3,140 per rental property and, on average, each investor respondent's costs around $15,000 in higher taxes.

To offset the tax increases 76.8% of respondents said they would increase or probably increase rental prices. A further 8.9% might increase rental prices and the median rental increase is expected to be between $21 and $30 per week.

While investors are not comfortable with increasing rental prices, respondents feel that this would be their only real option for coping with the higher taxes caused by removing interest deductibility. With 70% of them currently not charging full market rate rental prices, there appears to be room for rental price increases. Some respondents who had great tenants and had been subsidising them would have no option but to increase rents. However, if and when mortgage interest rates increase, they may be forced to take more significant action.

21% of respondents said they would sell some or all of their rental properties with many looking at their current strategy. They may for instance sell their older properties and buy new builds.

There was also some concern that large and negative events, such as death, divorce, job loss plus serious injury or disease may force property investors to sell their rental properties but the majority of respondents 62.9% hoped they will not be affected by the Bright Line extension.

There were noteworthy comments from respondents affirming they would change their way of life to try and hold onto their portfolios and good tenants rather than sell. Some examples from respondents included moving to a cheaper property themselves in order to keep a rental property, and taking on part time work or other ways to increase personal income to help compensate for the loss.

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