PROPERTY INSIGHT

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Property Council New Zealand

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Covid-19 Update

Economic Support Package Welcomed by the Property Sector

On the 17th of March the Government released its COVID-19 economic support package worth $12.1 billion. The package is a substantial armoury of tools designed to help New Zealand businesses during this period of uncertainty.

We applaud the Government for moving swiftly to develop this package and note several announcements of significance to the property sector:

1. **Reinstatement of depreciation deductions for commercial and industrial buildings.** A Bill will be introduced shortly and allow property owners to depreciate buildings (at 2 per cent) for the 2020/21 year effective immediately. Property Council has been pursuing the reinstatement of depreciation deductions since they were removed in 2010 and is pleased to see the Government recognising property as a "home for business".
2. **Wage subsidies** for all businesses that can show a 30 per cent decline in revenue (or forecast review) for any month between January and June 2020 compared to the previous year. If eligible, employers would be paid $585.80 per week for full time staff (<20 hours p/w) and $350 for part time staff (>20 hours p/w).
3. **Leave support** for businesses to apply for leave on behalf of employee's who are unable to work because they are in self-isolation, sick, or caring for dependents. The same rate of wage subsidies (as above) will apply.
4. **Small businesses provincial tax increase** from $2,500 to $5,000 on 1 April 2020. This will result in fewer small businesses having to pay provincial tax and help reduce cashflow pressures.
5. **Waiving interest for late tax payments** to provide relief for businesses who are directly affected by the COVID-19 outbreak. This will apply for all tax payments due on or after 14 February 2020 and will be at the discretion of Inland Revenue.
6. **Low value asset deductions** to increase to $5,000 for 12 weeks and revert to $1,000 in the long term. (Note: the current threshold is $500, but the proposed adjustment to $1,000 in the long-term aligns with Australia's threshold).

As Minister Grant Robertson said, "this is not a one-off package; it is just the beginning". As we write, the Government is undertaking work on how larger or more complex businesses that fall outside of this package can be supported.

Property Council chief executive Leonie Freeman says, "while this announcement is a great start, New Zealand will need further financial support to deal with the crisis period, to foster a strong recovery and to help our economy grow."

With every crisis comes opportunity, and the property industry has a big role to play in lifting the country out of recession during these uncertain times.

We have the opportunity to show leadership and prove that reinstating depreciation will help the economy, by injecting that money into building upgrades and maintenance.

As an industry we must take this opportunity to work with the Government to develop policies that allow us to create cities where communities can thrive. If we work together, we could re-set years of poor planning and under-investment, emerging to be better placed to face the future.

With the Government battling to deal with both a health crisis and an associated economic one, our advocacy is critical at this time.

Property Council will be working with the Government over the coming months to ensure that the voice of the property industry is considered as any further support packages to the property sector are developed.

Depreciation Explained

The support package includes the reinstatement of depreciation deductions for commercial and industrial buildings, aimed to encourage business investment in the recovery phase of COVID-19 and support productivity.

This means a building owner will now be able to claim a depreciation deduction at the rate of 2 per cent per annum. The building owner will be able to use that reduced tax liability to invest back into the building or their activities – including new construction activity. The Government is encouraging building owners to use the reduction in the tax they will need to pay to reinvest in the building and construction sector through new activity. This move will allow around $2.1 billion, that would otherwise have been collected in tax, to remain with building owners and encourage investment.

Property Council members have long been asking for depreciation expense to be reinstated to support them to upgrade their buildings, especially in relation to the requirements in relation to earthquake strengthening.

To find out more about Property Council's response to the COVID-19 outbreak, please visit **propertynz.co.nz/covid-19**

New Ground Capital's Build-to-Rent accommodation, *Toru Apartments* in Queenstown

Advocacy

What is Build-to-Rent?

New Zealand is facing a housing crisis, with a shortage of rental stock having a serious impact on the price, quality and availability of rental properties.

Enter Build-to-Rent (or BTR if you're into acronyms); the current buzz word of the property sector, ready to provide affordable, well-managed long-term rental accommodation for those have no desire or funds to own their own home. Can it be that simple?

What is it?

The BTR model is an emerging sub-market that has gained huge traction of late, particularly in the UK where the model has experienced unprecedented growth, with reports of 35,000 units either built or in construction as of September last year.

Essentially, BTR is large residential (often multi-unit high-density) developments designed specifically for renting rather than sale.

BTR properties are typically owned by institutional investors and managed by specialist operators. Generally, BTR properties are only available as long-term rentals (between three to seven years) and are purchased by investors who own shares in the development, meaning that you do not own an individual unit.

Shareholders are paid dividends based on the number of shares owned, with the units rented out to the public. Unlike a typical fixed-term tenancy, the tenant will be free to give notice when they choose. For tenants, this means they have long-term security without the fear of being ousted by the landlord.

Tenants will also have the benefit of living in tailored apartments where maintenance requests will be dealt with immediately rather than having to deal with a private landlord who doesn't want to spend the money and often takes the least expensive option available to them. Therefore the tenants in BTR accommodation will be living in a superior product, paying a set rent that increases usually in line with inflation and they do not have to worry about dealing with landlords who refuse or who cannot afford to maintain the property.

BTR properties are also often pet-friendly and the tenants are free to make minor modifications to the dwelling.

A Gen Z solution?

With many Millennials and their younger Gen Z counterparts no longer seeing the value in home ownership, one has to wonder if the BTR model might be the perfect fit for the next generation.

In Europe, many BTR properties enjoy shared facilities such as gyms, swimming pools and shared community living spaces, with amenities such as transport hubs, schooling, childcare centres, shops and entertainment close by. Often developments offer shared spaces which included kitchens and games rooms, with the community of neighbours connecting and thriving through coffee groups, cooking classes and other community-focused activities.

Add to this the prospect of never paying rates, maintenance or insurance, nor interest on mortgage payments and it's an attractive proposal for many who are currently struggling to break into the market.

The payoff for investors

For investors, the BTR model offers solutions to several problems such as short-term leases, with BTR homes having longer tenancy options of over three years. There has been discussion in the past that the government may even let developers use government land for projects that would encourage long-term renting, proving a security of tenure for renters and security of income for investors.

Overseas, the BTR concept is working extremely well, with investors who take a long-term approach to wealth finding it a worthwhile investment. The model has also been credited with contributing to a national construction boom in the UK.

The difference between the UK and New Zealand is that tax settings in the UK were changed to encourage investors to build rental properties and disincentivise buying existing stock for rental.

The benefits of this are two-fold; it encourages the building of new homes, therefore increasing supply and not forcing new home buyers who want to actually live in their home to compete with investors.

As New Zealand's tax system is vastly different, with no stamp duty or transaction tax on housing and tight restrictions on foreign investment that mean developers are limited in

Toru Apartments in Queenstown

their access to foreign capital, such an incentive is not possible here.

On the plus side, the extra facilities and services that come with BTR properties mean the average rent on these developments is higher than the norm. In London BTR homes cost an average 8.4% more than other rental homes.

With demand for long-term BTR residential accommodation strong in Auckland in particular, it's hard to see a time when quality, well-managed rental properties won't be an enticing opportunity.

In July 2019, Alan McMahon of Colliers International released a Built-to-Rent Investment Case for Auckland that does an excellent job of explaining the potential opportunity of BTR in Auckland. The report noted that;

"Barriers exist to BTR development at scale. The difficulties are GST treatment, combined with relatively low rents compared to construction and other development costs. However, if those with patient capital can ride out a few early years of low returns, then there is potential for high returns in later years, which are worth waiting for."

Property Council's view

Our members tell us that while BTR might not be a silver bullet, it is certainly an arrow in our armoury. The housing crisis may not be solved by one brilliant initiative, but every extra home gets us one step closer to rebalancing the housing paradigm.

Our governing board, National Council, recently signed off our advocacy priorities for the year with improving housing supply key on the list. Build-to-Rent is just one of many solutions that could see the development process streamlined to build more houses, faster.

We are calling on the Government to work with the sector to define what constitutes 'Build-to-Rent' for New Zealand and make the necessary legislative amendments to reduce impediments for potential BTR investors. Aligning the tax treatment of the BTR sector with similar large-scale commercial property investment assets will help to encourage investment.

To support further education on BTR, Property Council will be hosting Chris Key, Managing Director of Greystar Asia Pacific, at the Residential Development Summit in August.

To find out more visit:
propertynz.co.nz/RDS2020

Property Council
New Zealand

Mentoring

Emerging Leaders Programme delivers opportunities for growth

The Property Council Emerging Leaders Programme kicked off in 2019 with ten mentoring pairs selected for a one-year partnership. Supported by training from the New Zealand Coaching and Mentoring Centre, participants were guided through the process by Membership Manager Harry Wright.

For mentor Rebecca MacDonald of Air New Zealand and mentee Gracen Luka of TSA Management, the programme sparked not just understanding of a new discipline, but a friendship that gave Gracen the confidence to step into a new role.

Perhaps key to their success as a mentoring pair is the fact that both women are the kind of people who get stuff done. Rebecca's background is in engineering and building services, with a Bachelor of Engineering and an MBA under her belt, while Gracen graduated with a Bachelor of Building Science which landed her in project management roles.

"I've always been interested in the built environment and producing tangible outputs", says Gracen. "Being a project manager, you get to work with multiple disciplines and personalities which is a great experience and no two days are the same."

Rebecca says she applied to be a mentor so she could give back to the industry, "I have been lucky to have some really great bosses and senior colleagues throughout my career. I wanted to give back by sharing my experience with others and hopefully helping them in the same way others have helped me."

Meanwhile, Gracen describes the decision as an easy call to make, saying, "it seemed like a hard opportunity to let pass by. Access to someone in the industry you wouldn't usually get exposure to and a platform to share your opinion in a constructive environment. A no brainer."

The programme formally got underway in May, with mentors and mentees attending a training day that set them on the path to success. "The training day was fantastic; it was great to meet the other mentors and mentees. Although I have been involved in mentoring programmes before, I have never had any training to be a mentor, so it was great to get some development in this space", says Rebecca.

Gracen agrees, "It was a great initiative to kick off the programme as it not only gave each pair a framework to build a productive relationship from, but also enabled an even wider exposure pool as we learnt from the other respective pairs."

When asked to reflect on the programme, both women say they have a renewed understanding for a different sector of property, while also counting their friendship as a major gain.

"I've always been quite fond of the saying "women can't be what they don't see", says Gracen. "However, I didn't realise how much of an impact it has until I experienced it first-hand. Reflective of the projects I'd been working on in my short career, I hadn't yet been exposed to many female project managers in the industry, which resulted in deficits in evaluating and benchmarking myself within the same professional context to some of my colleagues. I didn't realise how much of a void this was until I was paired with Rebecca", she says.

"I've also benefitted from Rebecca's platform to grow my own prospective career, as we identified areas which I should focus on to ensure I'm constantly growing and diversifying my skillset. From this ongoing exercise, she helped me create new career opportunities, one of which I have pursued."

Gracen welcomed the opportunity to learn from a woman in property who had faced a lot of issues and experiences that she was encountering, saying Rebecca gave her a proactive strategy to approaching these issues.

When asked if they would recommend the programme, both were firm advocates, saying the programme is a great chance to give back while also learning a bit about yourself and broadening your industry knowledge.

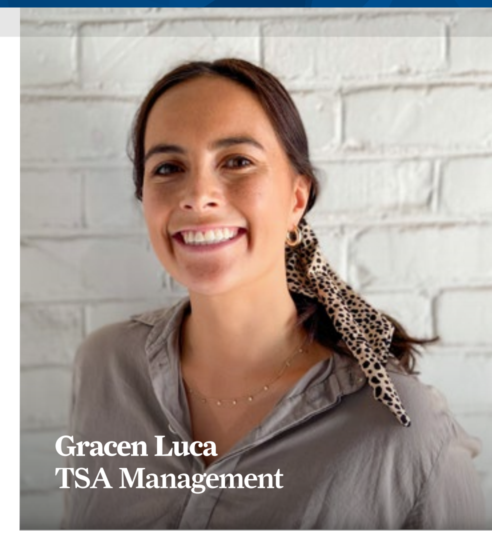
For Gracen, the opportunity to get exposure to the New Zealand property sector and have candid and challenging conversations with a senior person in the industry were among the top reasons for applying. But perhaps the best reason of all is summed up by her final words, "lastly, you get to call your mentor your friend".

PROGRAMME PARTNER JLL

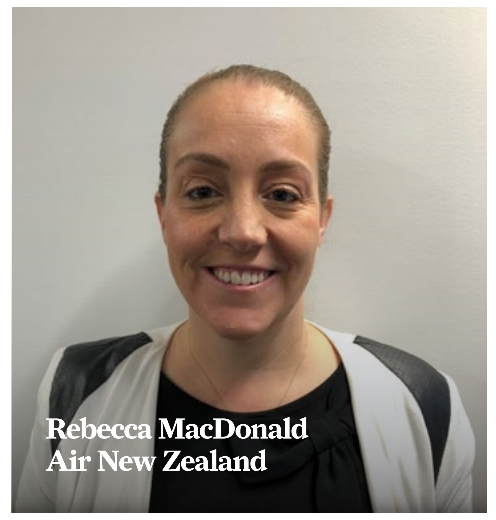
We are now inviting applicants for the 2020 Emerging Leaders Programme. If you are interested in being part of the initiative, please visit:

propertynz.co.nz/mentoring

The programme is a great chance to give back while also learning a bit about yourself and broadening your industry knowledge.



Gracen Luca
TSA Management



Rebecca MacDonald
Air New Zealand

In Brief

Welcome new members

The Property Council team warmly welcomes **Vital Healthcare** and **Barfoot and Thompson,** who have joined as Corporate Members. We also welcome:

Auckland

We welcome Auckland Notable Properties Trust, Mace Group, Jacobsens, JWA Architects, Novasteel International Limited, SRG Global, Homes of Choice, Envision Planning Consulting Ltd, RobLawMax Recruitment, MRC2 Limited, Dempsey Wood Civil Limited and Stiffe Hooker Limited.

Waikato

HD Geo.

Bay of Plenty

Archistudio.

Wellington

RobLawMax, Fagerhult and Homes of Choice.

South Island

Fagerhult and Turner & Townsend.

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PROPERTY INSIGHT

Chief Executive's Update

Knowing Where We're Going

They say you can't know where you're going unless you know where you've been, which is fine provided you use your review of the past to improve the future. Where this comes unstuck is when we spend so much time lamenting missed opportunities that we miss the ones staring us in the face.

So, this month, while we're taking you on a brief look through 2019 (see right), I want to use my corner to talk about what lies ahead.

I'm sure you don't need to be told that it's an election year; the political to and fro has already started and we know that there will be some goodies for us in the lolly scramble of election promises. Of course, there's probably the odd Turkish Delight that no one wants in there too.

The key areas of focus for Property Council this year are simple:

Inspirational industry leadership

This area covers everything from continuing to improve our engagement with key decision makers, to educating politicians on the complexities of the property and development sector, getting more Ministers in front of our members and continuing our contribution to the Construction Industry Council, Construction Sector Accord and other industry groups. Supporting and driving change through industry initiatives is high on our priority list.

Diversity and inclusion is a big part of this workstream, with plans to expand the 40:40:20 Panel Pledge, continue to monitor gender diversity across our portfolio and launch a research project that will establish a baseline of gender diversity in the property industry.

Reform to the resource management system, support of the Build to Rent sector and creation of a clear strategy to enhance the sustainability and resilience of the property industry also fall under both here and under advocacy.

Influential advocacy

The advocacy team have identified five policy priorities:

1. **Enable thriving cities and communities**
2. **Reform the planning system**
3. **Amend regulation and taxes**
4. **Deliver housing for all**
5. **Improve sustainability and resilience**

Underneath these priorities fall both national and regional advocacy projects, from annual and district plan reviews to the delivery of an Election Platform that we will use to advocate our member's position in the lead up to the election.

This year we have also earmarked some time to review our research offering, with business case reviews of the Operating Expenses Benchmark and Shopping Centre Directory among others.

Success in this area would be significant engagement with our Election Platform by politicians and media, an updated Economic Significance Report that provides evidence of the property industry's impact on the New Zealand economy and continuing engagement with policy makers and submissions on topics related to our top priorities both nationally and across the branches.

Communications with impact

If 2019 was about getting our processes in order behind the scenes, 2020 is about evolving the Property Council brand to better reflect our membership. From streamlining our member communications, improving our database and increasing our audience, to providing opportunities for the industry to advertise and continuing to share stories that improve the public's perception of the property industry.

Expect to see a new look, more stories that showcase the property industry and a more tailored member experience.

Exceptional member value

So much of what Property Council offers our members is intangible. Preventing a piece of legislation from being bought into effect often saves the industry millions, if not billions of dollars. But measuring a negative can be difficult, especially if the impact was never felt by the member itself.

In 2020, our focus is on giving members something they wouldn't get elsewhere through the delivery of topical, interesting events, improving our sponsorship strategy to give members more opportunity to showcase their services, increasing our engagement with Corporate and Core Members to ensure they get value for their investment and expanding the Emerging Leaders Programme so we continue to attract and retain industry talent.

A dynamic organisation

A huge amount of work was done behind the scenes in 2019 to develop a strategic plan, restructure our team, reconfigure our financial systems and get our house in order. This year, National Council have tasked us with several projects that build on the work already done, including:

- **Review the structure of our committees**
- **Finish documenting all internal processes and procedures throughout the organisation**
- **Commence a review of our membership and governance structure (likely to be a multi-year project)**
- **Review and investigate our membership software in alignment with the membership structure**

In conjunction with the membership and governance review, we have been set the task of developing a financial framework that ensures our organisation is sustainable. While this may seem like standard business practice, it is slightly more difficult for a not-for-profit as we will need to build up our reserves slowly over time.

I look forward to taking you on this journey with us.

Ngā mihi.

Leonie Freeman
Chief Executive

Property Council New Zealand

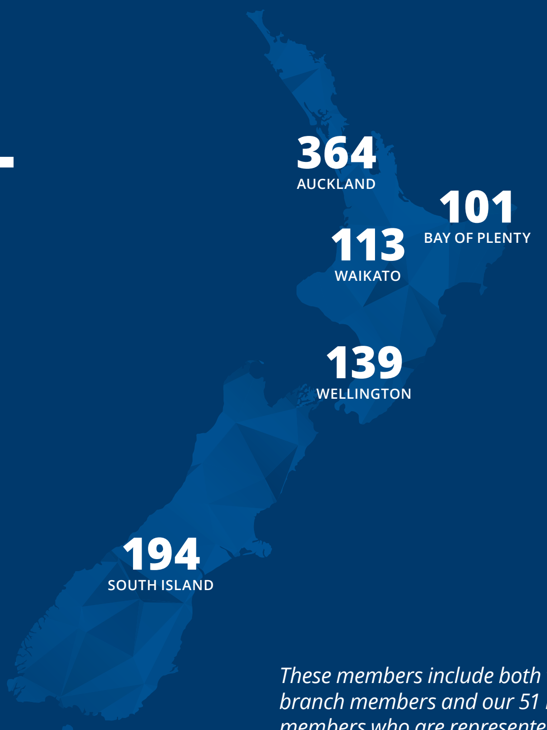
OUR MEMBERSHIP

Including:

— **15** Corporate Leaders

— **21** Corporate Members

— **15** National Associates



These members include both the local branch members and our 51 national members who are represented in each branch as of January 2020.

Together, shaping cities where communities thrive

Successfully lobbied:

Against Capital Gains Tax

For a review of fire service levies

For the introduction of the Urban Development and Infrastructure Funding and Financing Bills

Against development contributions increases in Hamilton and Auckland

For the $6.4bn Let's Get Wellington Moving plan

For reform of the resource management system

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