



Build to Rent

# #BTRprovideshomes



Property Council  
New Zealand



Crockers<sup>®</sup>  
PEOPLE & PROPERTY

WARREN AND MAHONEY<sup>®</sup>

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KENSINGTON SWAN





## Leonie Freeman

Chief Executive Officer



### Building momentum for Build to Rent

Very rarely in my time as Chief Executive of Property Council have I seen the level of interest and engagement from our members than I've seen for the topic of Build to Rent. Developers large and small, investors, architects, the legal fraternity, anyone related to the property ecosphere have demonstrated loud and clear this is something they want for New Zealand.

The excitement comes, yes, with a business focus, but very much with a people focus too. We all know the dismal stats that underlie the now well-used term "housing crisis". If we as a sector have ever had a role to play in providing solutions, that time is now.

I am proud of how our industry is gathering together to back BTR and address the current blockages preventing large scale development here in Aotearoa. Our cousins across the Tasman have taken to this new kind of commercial living, where tenants are at the fore, with gusto and now it's our turn.

If you're reading this and you're not yet a Property Council member, come join us. We need your support to address the challenges and convince the Government that BTR meets both their goals and ours on behalf of New Zealanders.

Together, we are part of something powerful.

Together, we are city shapers.





## Denise Lee

Head of Advocacy

We believe Build to Rent is a key lever in providing more, affordable, quality homes for Kiwis.

Cynics out there might say it's about perceived yield or cottoning on to the next big thing by international standards, but it's much more than that. I've sat in our Property Council working groups, our regional committees, amongst our industry leaders and in our staff room and the message is the same.

Build to Rent is about Kiwis. It's about housing Kiwis. The language doesn't stop there though. Placing renters into the same bracket as a highly valued customer, treating them with professional courtesy and raising the bar on accommodation for their sake. The language is personal.

If we can convince the Government a new asset class for Build to Rent in New Zealand is desirable, we will change the rental landscape forever. We've all heard the damaging stories of variable accommodation and landlords who are not incentivised to pick up their game at best, or who simply don't care at worst. Introduce a professionally managed, competitively placed product like Build to Rent and we'll never look back.

Property Council appreciates your support of this bold new initiative. Together, our voice is strong and we're taking it all the way to Wellington to convince the powers-at-be that with their help to address the very real but not insurmountable barriers, an easily achieved boost to housing supply numbers is on its way. The time and the environment are right but it's also the right thing to do.

Why? Because it will deliver homes for New Zealanders – it's *personal*. Let's get this show on the road.

## We have backing from Industry Experts



### Paul Winstanley

Senior Director  
Commercial Real Estate



### Shanon Aitken

Group Business Development Manager  
Property Management



### Mat Brown

Principal  
Architecture



### Paula Ormandy

Partner  
Solicitor





# Lifting the rental experience closer to home ownership

Renting in New Zealand is typically and justifiably seen as second-rate compared to home ownership. But, apart from homeownership being a financial investment, there is no reason why the two experiences should be vastly different.



With renting in New Zealand on the increase it is important that this imbalance is rectified as soon as possible.

Build to Rent can narrow this gap by raising the standard of the rental experience, thereby offering a long-term solution to this disparity.

For renters, Build to Rent ensures a high level of customer service, certainty of tenure with a long-term stakeholder, and a quality and functional place to live. For investors, it offers a long-term, stabilised income stream in a needs-based asset class. Build to Rent is not a passing trend. It is a common-sense approach to long-term sustainable rental investment at scale that benefits New Zealanders.

35%

The percentage of dwellings in New Zealand that are rented (as at 2018 census).

Currently, most properties in the Private Rented Sector (PRS) are operated by small-scale owners via a 'cottage industry' approach. New Zealand's taxation system has incentivised individuals to invest in residential property in recent years, but this has resulted in an inconsistent rental offer. Build to Rent offers a more professional product in the marketplace.



A person's ability to enjoy their home is not dependent on ownership. It is more about the presentation of the property, security of occupation, value for money, and how the occupier is treated. All too often rental properties offer poor value for money, a lack of tenure certainty, and an indifference to the renters' experience. Build to Rent schemes have already been successful overseas and are an inspiration for providing a better rental offer in New Zealand.











The overall philosophy for Build to Rent products is to rebrand 'tenants' as 'customers' or 'residents'. This simple non-adversarial and positive concept immediately rebalances the relationship. The investor provides a product that fulfills the customers' needs and the customer is comfortable and therefore wishes to occupy long-term.

The fact that Build to Rent offers a markedly different product from that currently available in the PRS is why investors are confident the product provides something new, innovative, and experiential that plugs a gap in the New Zealand rental market. Build to Rent investors in the UK have already discovered that putting the renter first often leads to higher rental income levels, increased customer retention, lower vacancy levels, and sustainable rental growth due to increased competition for units.

Investor interest in Build to Rent is certainly building in New Zealand, but a level legislative playing field is now required to move forward. Rethinking interest deductibility, Overseas Act restrictions to re-sales, depreciation rules, the timing of GST obligations, and aspects of the Residential Tenancies Act for managing multi-unit developments are all necessary if New Zealand is to join other countries already embracing the Build to Rent revolution.



## Key differences between Build to Rent and the Private Rental Sector

Features	Private rented sector	Build to Rent sector
 Occupier title	Tenant	Customer
 Design and build intention	To sell	To occupy
 Ownership	Individual	Company or institution
 Leasing length	Limited	Flexible
 Amenities	Minimal	Optimal
 Customer service	Inconsistent	Professional and proactive
 On-site service	Minimal	Dedicated
 Property management	Hands off	Hands on
 Leasing process	Ad hoc	Streamlined
 Tenure security	Low perception	High
 Rent inclusive of	Property only	Experience

# The Manager's Perspective

Crockers are Auckland's largest single office property manager, with around 4,000 residential & commercial properties across Auckland. We have been managing Build to Rent complexes for over 15 years – before the term really caught on in New Zealand, in fact.

With the concept of Build to Rent starting to take hold in Aotearoa New Zealand, we are seeing a slow but steady growth in the number of customers looking for professional Build to Rent management.

*And we're here to provide it.*



We're sometimes asked:

## What do you think the demand is for Build to Rent in New Zealand?

*Do tenants really want this kind of offer?*

From where we sit, the answer is an emphatic **yes**

We survey our tenants (although we like to call them 'home occupiers') regularly. The two main issues that crop up in their responses centre around security of tenure, and maintenance requests. In a Build to Rent property we are able to take those two issues entirely off the table. In our experience home occupiers are enthusiastic about the model and the certainty it provides. We have a home occupier in one of our complexes who has been there since it was built fourteen years ago – and if they'd like to stay another fourteen, that's all good with the owner!



We're also asked if the Residential Tenancies Act supports the Build to Rent model. The answer is that there are a few minor wrinkles, but they can be overcome. Writing tenancy agreements so that home occupiers know they have protected tenure without feeling locked in is a bit of an art, but one we think we are well on the way to mastering.

Thus far the Build to Rent complexes we're seeing in Tāmaki Makaurau Auckland are on a smaller scale to, for example, the United Kingdom or Australia. We're inclined to think that the "sweet spot" in New Zealand – where there is sufficient scale without being too intense – may well be smaller here, at least to begin with.



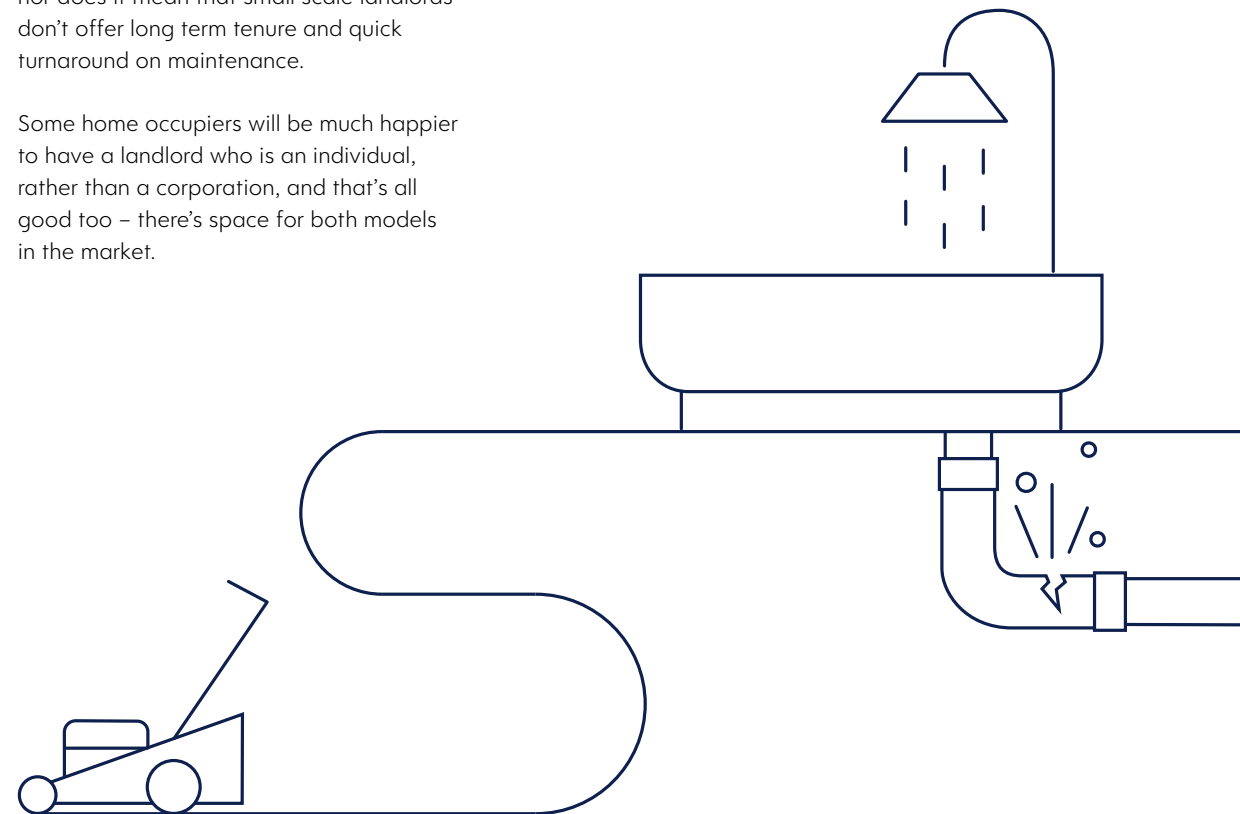
That's particularly the case in the urban fringe in Auckland where we are just starting to see medium density gain market acceptance. The Build to Rent complexes we're currently managing are so far around the 35 – 100 realm – but we are also seeing some clever ways of achieving that scale. One complex incorporates 55 terraced homes accompanied by a 32 unit apartment building – all in the same ownership and with consistent, professional management.

The advent of Build to Rent doesn't mean the end for the small scale investor with one or two properties – far from it – and nor does it mean that small scale landlords don't offer long term tenure and quick turnaround on maintenance.

Some home occupiers will be much happier to have a landlord who is an individual, rather than a corporation, and that's all good too – there's space for both models in the market.

What Build to Rent will do is to encourage landlords who are happy to provide that offer to their home occupiers to make it explicit – and that's something we're working on with our existing landlords at the moment.

*It all makes for a more dynamic and innovative market – and we're here for that too!*



“There’s space for both models in the market.”







# Design to Strengthen Cities

↑ Waipārū Hall  
University of Auckland



As architects, Warren and Mahoney is often the recipient of the hard work done by others.

Clients, agents, lawyers and accountants shape the brief we receive, often well before we become aware of the emerging opportunity.

Waipārū Hall, University of Auckland →

Our role of converting these opportunities, into something tangible, starts at a moment of confidence.

It's clear that a lot of hard work has been done in the Build to Rent space with an increasing number of opportunities beginning to present themselves in both New Zealand and Australia.



# Confidence has been found

After years of hearing that it's "difficult to make it stack", we're now seeing this becoming unlocked.

This is exciting for us as it represents a new area of design that centres on the fostering of community and the strengthening of our cities. We're quickly establishing a view of the emerging trends, with large scale projects coming to the fore, and clients seeking real connections with their residents, for the long term.

Broad appeal is key, with an increased variety of apartment types and price points. The need for on-site amenity is well recognised, providing space for residents that both supplements the function of their apartment, but also creates the catalyst for the creation of a community. The ability for a Build to Rent development to establish a community that people feel they belong to, or want to join, is central to securing and maintaining residents.



↑ Summerset Retirement Village, Parnell

**This represents a shift in how we think about residential developments in New Zealand.**

The long-term performance of a building now more directly benefits the developer as asset owner, not a third-party purchaser.

There is a greater connection between the decision makers, and the outcomes of those decisions. This will, no doubt, influence the decisions being made.

Of course, this path has been well trodden internationally, but the challenge ahead is the application of this knowledge to a New Zealand context. The creation of a sustainable community, and the cultural understanding that it requires, is specific to place.

We're not completely without precedent and we draw parallels with our work in student and retirement living; both typologies that leverage reputation and take a long-term view.

These are buildings that are sold in perpetuity, each time relying on the community they foster and the spaces they provide.

Student living and retirement operators know the importance of being excellent hosts and remaining relevant to the next cohort of residents.

The results are buildings that are carefully crafted to resident's needs and respond accurately to their specific market and location. They are aspirational - places that people want to be part of. They strengthen the city and contribute to their neighbourhood in both built and economic senses.

Our work is shaped by the brief we receive. Build to Rent is emerging as an exciting design and city making opportunity which more closely aligns development imperatives with the needs of the community. As a result, the places we design in response to these opportunities will grab the imagination and change the way New Zealanders think about how they live in our cities.

↑ Carlaw Park Student Village, University of Auckland





## It's always the lawyers who ruin things...

Build to Rent is an exciting opportunity for the New Zealand market, but as most people know by now, there are a few issues with the legislative framework...

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### Overseas Investment Act

The 2018 changes to the Overseas Investment Act 2005 (OIA) made residential land in New Zealand "sensitive". This "foreign buyer ban" means non-resident overseas persons will usually only be allowed to acquire residential land if they on-sell within a specified period.

There is an exemption for large-scale alternative residential developments, including Build to Rent. Unfortunately in spite of Government commentary to the contrary, the treatment of Build to Rent under the OIA is not the same as retirement villages or student accommodation. The key differences are:



#### On-sale

Ministerial discretion (a "may" not a "will") to waive the on-sale condition;



#### Foreign buyers

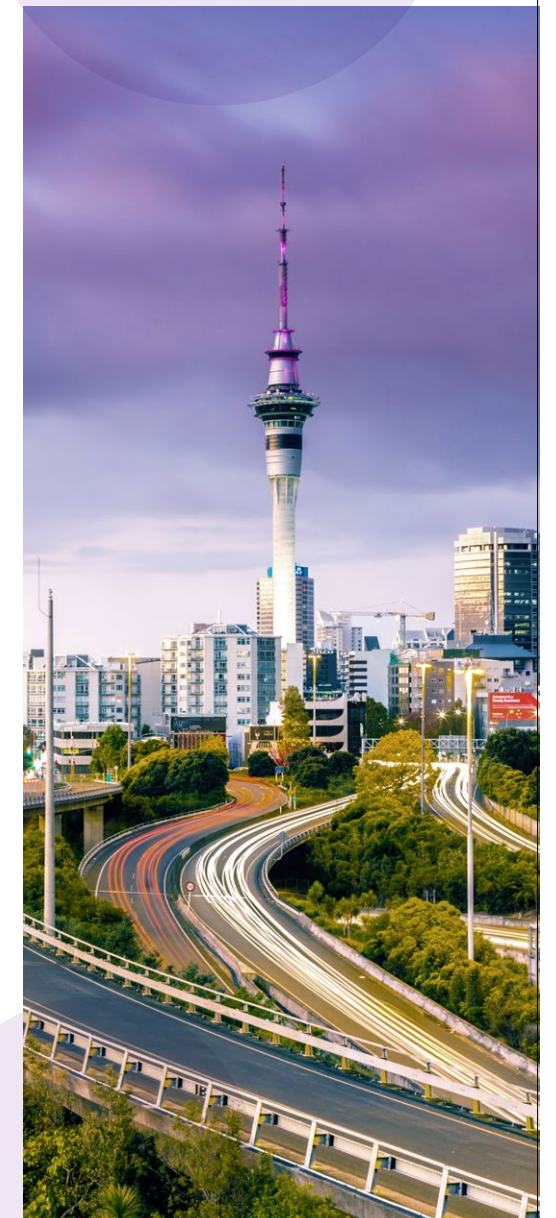
The overseas person must be in the business of providing new residential dwellings as Build to Rent (there is not a similar requirement for retirement villages or student accommodation). Foreign investors who are new entrants to the Build to Rent market or experienced foreign operators (but not developers) would not pass the test; and



#### New vs existing

There are some inadvertent drafting errors (over-exuberant cross referencing) such that the exemption for "existing" Build to Rent section refers straight back to "new" Build to Rent, so you need to be comfortable "reading down" the relevant sections to delete five references to "new" in order to allow foreign investment in existing Build to Rent.

Even if these sections are interpreted broadly today, the ambiguous drafting (and discretionary element) adds uncertainty and risk about how these will be applied in the future, creating an issue with liquidity.



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## Interest deductibility

In March the Government announced that it intends to remove the ability to deduct mortgage interest for residential property investors. Instead of recognising Build to Rent as a commercial asset class, the recent consultation document focusses on a “new build” exemption. This kills the numbers even if the original owner is allowed to deduct interest on a new build.

As a personal right, future purchasers cannot use it, and valuations (even on day 1) must therefore assume interest non-deductibility, so projects fail to stack up from a bankability perspective at the start.

## And...

The Residential Tenancies Act isn't fit for purpose for Build to Rent, and there are questions about GST and depreciation as well...

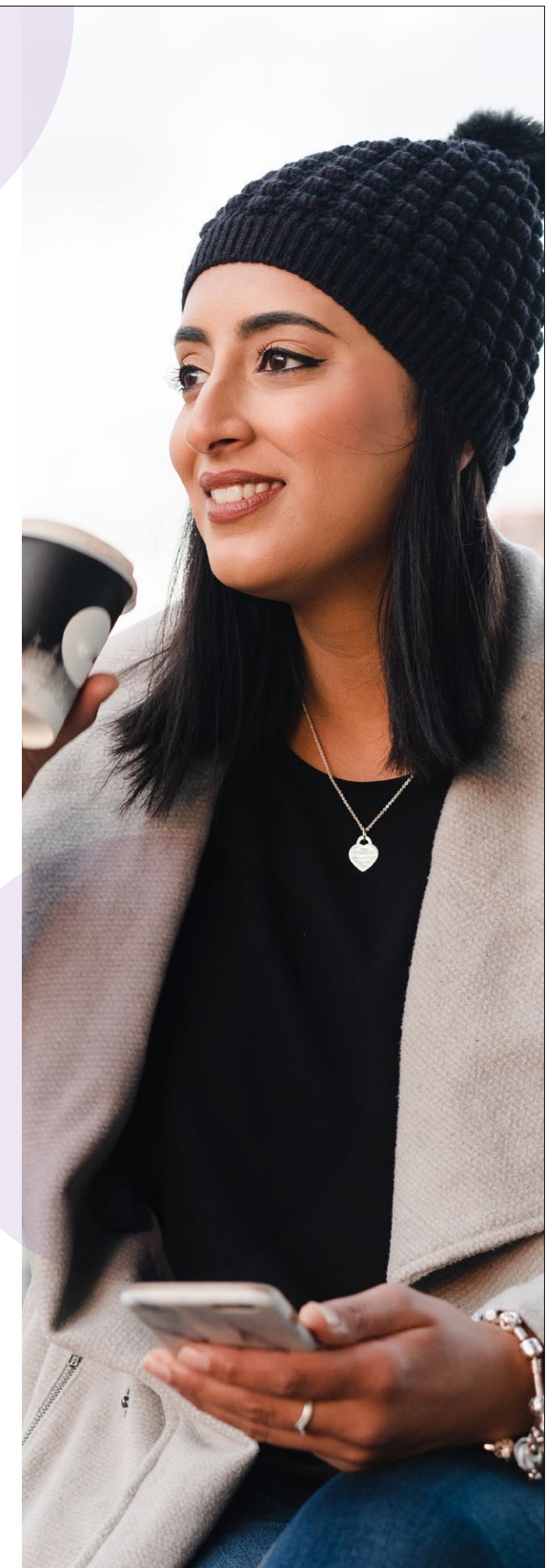
## Definitions – the solution for everything

But there is a solution - If we can establish an agreed definition for Build to Rent in New Zealand this would drive both industry development and offer an easy fix to the drafting issues.

PCNZ has previously suggested a draft definition, and has recently prepared a definition of “affordable” Build to Rent.

If these definitions were added to the definition of “long term accommodation” in the OIA, as a further exclusion from the definition of “dwelling” in the Income Tax Act and as a further section 5 exemption under the RTA, Build to Rent as a commercial asset class would have the same legislative treatment as retirement villages and student accommodation.

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**Leonie Freeman**

Chief Executive Officer  
Property Council NZ  
+64 27 436 6526  
leonie@propertynz.co.nz

Level 4 (Foyer Level)  
51 Shortland Street  
Auckland CBD, 1010

**Denise Lee**

Head of Advocacy  
Property Council NZ  
+64 27 687 2351  
denise@propertynz.co.nz

Level 4 (Foyer Level)  
51 Shortland Street  
Auckland CBD, 1010

**Paul Winstanley**

Senior Director  
JLL New Zealand  
+64 21 819 348  
paul.winstanley@ap.jll.com

Level 16, HSBC Tower  
188 Quay Street  
Auckland CBD, 1010

**Shanon Aitken**

Group Business Development Manager  
Crookers Property Group  
+64 21 220 6233  
shanon@crookers.co.nz

525 Manukau Road  
Epsom, 1023

**Mat Brown**

Principal  
Warren and Mahoney  
+ 64 21 896 459  
mat.brown@warrenandmahoney.com

139 Pakenham Street West  
Auckland CBD, 1010

**Paula Ormandy**

Partner  
Dentons Kensington Swan  
+64 21 915 024  
paula.ormandy@dentons.com

18 Viaduct Harbour Ave  
Auckland CBD, 1010

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