Property Council New Zealand

Hon. Simon Watts
Minister of Revenue
Parliament Buildings
Wellington 6160

cc. Rt Hon. Christopher Luxon Prime Minister, Hon. Nicola Willis, Hon. Chris Bishop, Hon. Chris Penk, Hon. David Seymour, Hon. Shane Jones and Rt Hon. Winston Peters.

cc. Peter Mersi, Chief Executive, Inland Revenue Department

20 March 2024

Dear Minister,

I am writing on behalf of Property Council New Zealand ("Property Council") to share our upmost disappointment on the removal of building depreciation in the Amendment Paper to the Taxation (Annual Rates for 2023-24, Multinational Tax and Remedial Matters) Bill. Property Council along with the below organisations in Appendix A are opposed to the Government's proposal to remove depreciation from commercial and industrial properties.

Property Council is the leading advocate for New Zealand's largest industry – property. A not-for-profit organisation, the Property Council connects over 10,000 property professionals, championing the interests of over 570 member companies. Our membership is broad and includes some of the largest commercial and industrial property owners across New Zealand.

We are extremely dissatisfied that the amendment to remove depreciation for non-residential buildings will not undertake a Select Committee process, thus removing the ability for ourselves, and our members to make formal comment in opposition to the proposal. By removing the opportunity to provide feedback at the Select Committee stage, **there is no forum to provide alternative policy and regulatory ideas such as; retaining depreciation for seismic strengthening of buildings – something our members have been calling for.**

In place of a submission, please see the below five information points as to why we believe the retention of depreciation is critical.

1. **Buildings do depreciate.**
   International economic evidence dating back to 1981 shows that commercial and industrial buildings do depreciate, with the average rates varying between 1.0% to 9.9% (once high outlier removed).[1] If depreciation was removed, New Zealand would be the only OECD country that does not have depreciation for both commercial and industrial buildings.[2]

2. **Flip flopping on depreciation rules creates uncertainty for industry and dampens international investment.**
   Without commercial and industrial buildings having access to depreciation, there is significant risk that forward investment in the maintenance, seismic strengthening, environmental and well-being upgrades will be dampened or reduced. Furthermore, the future development pipeline (along with international investment) for New Zealand's build environment will be seriously at risk.

[1] Hulten and Wykoff 1981, Bureau of Economic Analysis 1997, Di xon, Crosby and Law 1999, Deliotte and Touche 2000, Gellatly, Tanguay and Yan 2002, Tanguay 2005, Gellatly, Tanguay and Yan 2007, Patry 2007.

[2] http://taxsummaries.pwc.com/singapore/corporate/deductions noting that Singapore has Land Intensification Allowance which is a different form of depreciation as a tax incentive.

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3. **Property Council survey showed 92% oppose the removal of depreciation.**
   Property Council conducted a survey over a 24-hour period on the 15-16 October 2023, which was independently reviewed by Russell McVeagh. The survey had over 550 respondents in which 92% did not support removing depreciation. 88% foresaw a decrease in the development pipeline if depreciation was removed and 83% foresaw a decrease in building values if depreciation was removed.

4. **Property Council survey and research shows far wider market implications than the 2.31b estimate over the forecast period (2024/25 – 2027/28).**
   The Regulatory Impact Statement estimates that removing commercial and industrial depreciation will raise $2.31b of revenue between 2024/25 – 2027/28. However, there is a greater cost associated with the removal of depreciation for the property sector and New Zealanders at large.

   Property Council's survey and research undertaken by Urban Economics discovered that the removal of depreciation could result in:

   - **$8.4b of projects at risk of not progressing** (sample size 65 developers)
   - **$5.6b decrease in property values**
   - **$2.7b of capital works at risk** (sample size 95 owners/operators)
   - **$2.3b of projects at risk of re-evaluation** (sample size 24 developers)
   - **$1,540 average additional rent increase** for tenants per annum.

   When property does well, New Zealanders do well – with 1.8 million Kiwis unconsciously property investors via their KiwiSaver schemes, and $3.3b (4.4%) in KiwiSaver funds invested in property – the removal of depreciation is much wider than our industry alone.

5. **Inland Revenue Department is opposed to the removal of depreciation.**
   The Regulatory Impact Statement shows that the Inland Revenue Department ("IRD") is opposed to the Government removing depreciation for commercial and industrial buildings. It states: "we do not consider the removal of building depreciation to be a fair and efficient way of raising revenue." IRD recommends retaining the status quo.

   IRD also states that no alternative policy position has been made due to lack of time. We are greatly disappointed that there is no opportunity to provide alternative policy and regulatory ideas such as; retaining depreciation for seismic strengthening – as this could have been a middle ground option for the industry. We will be closely following IRD updates on the wider implications the removal of depreciation will have on the property sector.

Should you have any questions, please do not hesitate to get in touch with me via email Leonie@propertynz.co.nz or via phone +64 27 436 6526. Despite our opposition, we urge this decision to be a temporary measure with considerations to extend depreciation for seismic strengthening and later in full to ensure we can continue to shape cities where communities thrive.

Yours sincerely,

Leonie Freeman
Chief Executive

Scott Pritchard
Chief Executive, Precinct Properties