# COSTS AND BENEFITS OF REGULATING THE RESIDENTIAL PROPERTY MANAGEMENT SECTOR

Final Report

October 2022

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This report has been prepared for Te Tūāpapa Kura Kāinga - The Ministry of Housing and Urban Development (HUD) by Simon Orme, Jessica Black, Jason Webber, and Nick Carlaw from MartinJenkins (Martin, Jenkins & Associates Limited).

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# INTRODUCTION

The New Zealand residential rental market is significant, housing around 600,000 households, or around 1.4 million tenants. This is currently 28 per cent of New Zealand residents. Residential property managers (RPMs) service an increasing portion of this rental accommodation.

Currently the residential property management sector is not required to meet minimum competency and industry practice standards. Stakeholders across the residential rental market have raised the risks that this poses to the sector, property owners, and tenants.

In response to this Te Tūāpapa Kura Kāinga / the Ministry for Housing and Urban Development (HUD), is proposing to introduce occupational regulation into New Zealand's residential property management (RPM) market.

MartinJenkins has been engaged by HUD to undertake an independent cost benefit analysis (CBA) of the preferred model for the regulation of the residential property management sector. This report outlines our assessment of the economic benefits and costs of the preferred model. The analysis has been prepared in line with the New Zealand Treasury's G*uide to Social Cost Benefit Analysis*, dated July 2015.

Initial proposals on the regulatory model were set out in *Residential Property Management, regulatory options; a discussion paper*, dated February 2022, prepared by HUD. Public submissions and stakeholder conversations in response to the discussion paper have since informed a revised regulatory model. We modelled the costs and benefits based on the most up to date, preferred regulatory model as provided by HUD.

To undertake the cost benefit analysis, we first sought to better understand the public policy problem with New Zealand's current (largely) unregulated rental property management market. This included understanding the current market dynamics and operating models, the size of the market, and the affected parties in the residential property management services market. This supported our understanding of the status quo and enabled us to identify incremental costs and benefits of the introduction of proposed regulations.

An intervention logic map (ILM) was developed as a key part of the analysis. Incremental costs and benefits were identified and quantified in line with the drafted ILM, our understanding of the market, and best practice on undertaking a cost benefit analysis.

Conversations with industry professional bodies - the Residential Property Management Association (RPMA) and the Real Estate Institute of New Zealand (RIENZ) – informed inputs and assumptions used in the analysis. Discussions with, and information provided by, HUD, the Real Estate Authority, MBIE, and the Ministry of Justice also informed key modelling inputs and assumptions. We complemented these sources with research and applied our experience undertaking similar analyses to complete our overall assessment.

# KEY FINDINGS

Assuming that the detailed design of the regulatory scheme seeks to minimise transition and ongoing costs, incremental benefits are expected to be greater than incremental costs. On this basis, the proposed regulatory scheme will contribute to the overall well-being of New Zealanders affected by the performance of Residential Property Management (RPM) markets.

The proposed regulatory intervention reduces the economic costs of present inefficiencies and failures in RPM markets. These failures primarily arise as a result of information asymmetries between suppliers and consumers of RPM services under the current unregulated arrangements.

Among other things, information asymmetries result in under-investment in staff training, insufficient overall labour levels and under investment in managing contractual, revenue, and asset risks for property owners. These market failures are not expected to be self-correcting in the absence of regulatory intervention.

The regulatory scheme would efficiently reduce these market failures by requiring minimum levels of investment in staff training, mandatory performance standards, and specific requirements in relation to public liability and indemnity insurance, trust accounts and regular audits. The scheme is backed up by ongoing monitoring and disciplinary arrangements including the possibility for fining and de-licensing and de-registering individual RPMs, and preventing unsuitable individuals from entering the market.

Sensitivity analysis indicates how overall outcomes are affected by changes in assumptions for the key cost and benefit drivers. The estimates of regulator costs have been developed from and compared with the cost of operating similar occupational licencing schemes in similar sectors.

Nevertheless, there is currently uncertainty over the detailed design of the new regulatory arrangements. The key uncertainties relate to transition costs, including initial training or recognition costs, the extent the RPM workforce is expanded to meet new performance standards, and the direct compliance costs from the mandated purchase of risk reduction services necessary for ongoing licensing.

There is a much higher level of uncertainty regarding all aspects of the avoided costs from the intervention, and how these might be distributed between the demand and supply sides of the market and the two sides of the demand side of the market (owners and tenants). This uncertainty reflects the very information asymmetries that are contributing to current inefficiencies and market failures.

Uncertainty over the level and timing of benefits is the major risk that needs to be managed in the detailed design of the new regulatory arrangements. Alongside active management of the transition and the adoption of an evaluation data system from the outset, the introduction of the new regulatory arrangements should seek to minimise the regulatory burden to the maximum extent possible.

## Key cost-benefit analysis results

Table 1 below provides a high-level summary of incremental costs and benefits of the proposed regulatory model, in present value terms, relative to a continuation of the unregulated status quo over a forecast period to FY 2032/33.

**Table 1: Summary of incremental costs and benefits - $m**

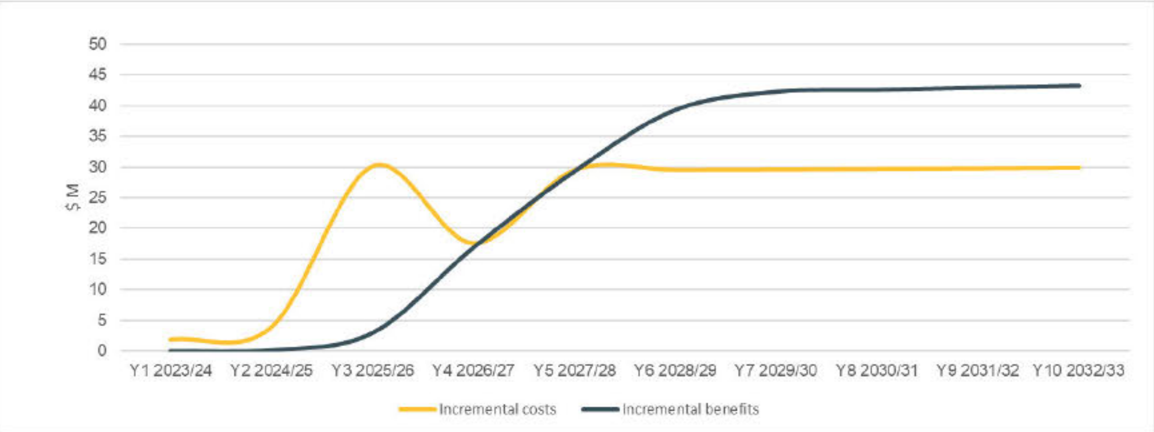
| High level summary | Total (PV)- $m |
|---|---|
| Incremental costs | 159.9 |
| Incremental benefits | 170.8 |
| Benefit to cost ratio | 1.07 |
| NPV (at 5%) | 10.9 |

The incremental net present value (NPV) of introducing the proposed regulation, under a 5 per cent social discount rate, is $10.9 m. The benefit to cost ratio is 1.07:1. This result indicates a small net benefit from the proposed intervention. [1]

Further details on other scenarios showing the impact of different assumptions and social discount rates are provided in the Sensitivity analysis section of this report.

The profile of incremental benefits and costs over the forecast period is provided in the chart below.

**Figure 1: Incremental costs and benefits over time - $m, real**




The profile highlights the significant transition costs as the proposed regulatory model is implemented and a delay before benefits realisation begins and benefits are fully realised. After the transition period, benefits exceed costs for the remainder of the study period and the transition costs are fully recouped.

1 When considering costs and benefits that we have identified and quantified.

# THE CURRENT RESIDENTIAL PROPERTY MARKET AND SECTOR

## The market and the sector

The proportion of New Zealand households in long-term rental accommodation is increasing. Around 600,000 households, or around 1.4 million tenants are estimated to occupy rental accommodation. This is currently 28 per cent of New Zealand residents. It is estimated that 489,000 residential rental properties are those held by private property owners. [2] The vast majority of these owners own a single property.

The portion of properties managed by residential property managers is uncertain. Some estimates put this portion at 42 per cent, [3] while some industry participants have suggested this could be as high as 60 per cent. [4] For the purposes of this cost benefit analysis, we assume residential property manager (RPM) markets supply property management services to approximately 50 per cent of these private rental properties, or 249,000 properties. [5]

The number of residential property managers (RPMs) in the sector is also very uncertain, but is indicatively estimated as between 2,500 - 5,500 RPMs. According to the 2018 Census there are around 7,800 commercial and residential property managers operating in New Zealand. The upper estimate of RPMs is derived from this, while the lower is based on a combination of property management membership numbers, [6] industry sense, and RPM-to-property ratios.

An RPM may manage around 80-100 properties, with others (typically in larger organisations with different business models, or those underservicing) running higher ratios of 100-300 properties. There is also a portion of the market which manage a much smaller number of properties, 50 or less. Examples include a real estate agent supplementing their income by managing a handful of properties, and an RPM in provincial New Zealand.

## Business models and service standards

Residential property management (RPM) services are primarily funded from RPM fees and charges that are deducted from rental income streams. Fees and charges may take the form of a fixed percentage of the rental stream being managed, alongside additional fees for specific services.

On average the percentage fee is roughly 8.5 per cent. This is supplemented by fees for services such as letting and inspection fees. It also appears that floor rates apply where rental rates are deemed insufficient to generate a positive return for RPMs. When average fees for service and floor rates are

2 Statistics New Zealand 2019, and the New Zealand Census 2018.

3 According to bond data, MBIE, November 2021.

4 As discussed with industry bodies, particularly RIENZ May 2022.

5 For simplicity we also assume that this portion remains constant over time, while the number of RPMs and proper ies itself grows.

6 At least 1,300 property managers providing residential property management services are a member of either RIENZ, PROMINZ or RPMA.

accounted for, the total value of RPM fees and charges is estimated at an average of 9.6 per cent of total rental income, or currently around $675 million in income per annum.

Industry bodies such as the Real Estate Institute of New Zealand (RIENZ), the Residential Property Managers Association of New Zealand (RPMA), and the Property Managers Institute of New Zealand (PROMINZ) have various standards that their members are required to meet. However only around 1,300 residential property managers are members of these bodies, and there are no sector wide mandated service standards for RPMs.

It appears there is significant variation in service standards. However, as discussed under the case for change below, it is less clear that the variations in service standards correspond to variations in price.

## Market and regulatory dynamics

The rental property and RPM sector has been navigating the introduction of changes to the Residential Tenancies Act, the Privacy Act, and Healthy Homes Standards, among other things. Where changes have increased workload, the efficient number of properties managed by each RPM may have reduced at the margin.

On the other hand, there is an incentive for RPM firms and individual RPMs to maximise the number of properties under management – the rent roll. This increases RPM revenue and margins. In addition, rent rolls can be on-sold to other RPMs for a short-term profit.

## Other key sector metrics

Based on what we currently understand about the number of properties RPMs manage, and our estimates on the overall size of the RPM market, the modelling base of this cost benefit analysis assumes there are currently 3,700 RPMs in the sector. A portion of these are RPMs who are recently new to the sector, while others will be longer serving RPMs with greater experience, and perhaps official educational attainment.

The RPM sector appears to have significant staff turnover. Some indications at an organisational level suggest average annual attrition rates approaching 20 per cent. There are, however, no current available data for the RPM sector.

The number of organisations providing residential property management services is also uncertain. We know these range from sole traders to a handful of large, national property management service companies. Most of these large organisations also provide real estate services. For the purposes of modelling, we assume there are currently 400 residential property management organisations in the market. [7] In practice this number will depend on how franchisees and similar are classified under the proposed regulations.

Over time we assume the number of RPMs, the number of properties under RPM services, and the number of RPM organisations grows in line with population growth as forecast by Statistics New

[7] Based on original figures hypothesised by HUD, and RIENZ ratios of 1,280 PM members working in 110 offices (11.6:1), using 5,000 RPMs to give 431 organisations including franchise offices. We have rounded down to reflect lower RPM estimates from the original 5,000.

Zealand. The total value of the residential rental property market is also assumed to grow in line with population growth forecasts. Current estimates put the total value of the residential rental market at, at least $15 billion in rental turnover per year, or 4.3 per cent of GDP in 2021. By these numbers we estimate that the residential property management sector manages around $7 billion in rental turnover. [8]

RPM services are often supplied within larger real estate companies, reflecting the advantages of vertical integration between real estate and RPM service providers. This means that some RPM suppliers may be members of other industry organisations and may be meeting some, but not all the proposed entry and competency barriers for RPMs. We note there are around 1,300 property managers who provide residential property management services and are a member of either RIENZ, PROMINZ or the RPMA. Again, these members may be meeting some of the proposed entry and competency requirements for RPMs.

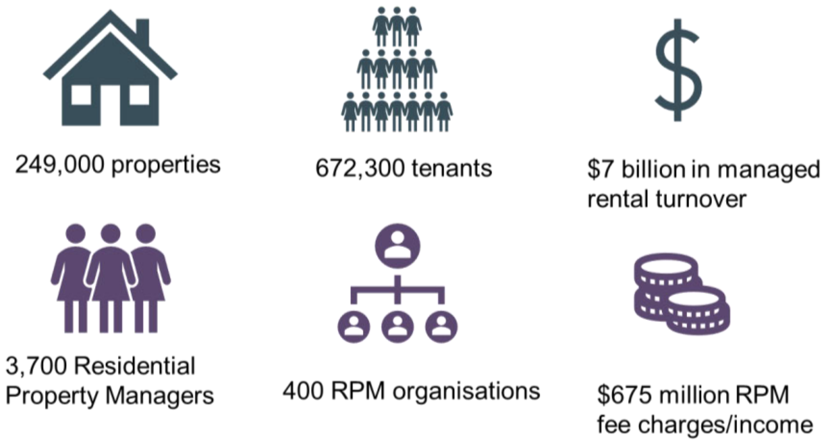
It appears that some individual RPMs may move between the RPM and real estate sectors, depending on changing market conditions. This reflects the counter-cyclical nature of rental markets where total volumes and revenues are less affected by changing credit conditions that are the main influence on changing residential property prices. It is possible that, especially in smaller population centres, some RPMs may manage a relatively small number of properties by combining RPM and real estate transaction revenues.

The current regulations, and this analysis focuses on RPMs for long-term rental accommodation. It is possible some RPMs may also provide RPM services for short-term rental accommodation and there are interactions between the short- and long-term rental accommodation markets. Some RPM services for short term accommodation, notably selection of tenants, and management of rental revenues, are facilitated by new software platforms. For present purposes, RPM services are defined only in relation to long-term rental accommodation where residential tenancy bonds are lodged.

**Figure 2: Total residential rental market – key figures**


8 Calculations from the latest bond data and median rental figures show rental turnover of $10.8 B per annum rental, but we know a portion of the market will not lodge bonds. We refer to the NZ Property Investors' Federation, who noted $15 B per annum turnover, accessed 2022: https://www.nzpif.org nz/items/view/61936/ and make some adjustments to exclude the portion of those not within the RPM market.

**Figure 3: Residential property management sector and market: key cost benefit analysis figures and assumptions – current base**



# THE CASE FOR CHANGE

## Policy objectives

The quality of rental housing matters. The long-term policy goal in relation to rental markets is for renters and their whānau to live in safe, warm, dry, affordable, and stable housing that supports wellbeing.

Rental housing expenditure and revenue is a significant part of the economy, exceeding $15 billion in expenditure per annum. [9] It is typically the largest weekly outgoing for households, and a key determinant of their overall wellbeing. A greater proportion of Māori rent than Pākehā, and renting is also more common for lower income households, with almost a half of all households in the lowest income decile renting. [10]

The RPM sector manages a significant portion of the national rental housing portfolio, and this is rising due to increased legislative requirements with which rental property owners must comply. [11] RPM service providers can have a large impact on the quality of the housing services they are managing, including by effective and timely maintenance and overall service quality.

The performance of RPM service providers can influence the value of the national housing portfolio at the margin. RPM service providers can minimise the incidence of property damage, including by timely and effective maintenance supported by regular asset condition inspections and supporting data systems.

The focus here is on the opportunity for improvements to RPM service standards through occupational and wider industry regulation. Possible improvements to the broader residential tenancy sector and rental markets, within which RPM service providers operate, for example the potential affordability gains from improved rental price transparency, are outside the scope of this cost benefit analysis.

## Impact of the services supplied by the RPM sector

The performance of the RPM sector influences the achievement of policy objectives and contributes to (or detracts from) rental property owners' and tenants' wellbeing. RPM service providers supply various services both to rental property owners and to rental property occupiers. RPM services include the following:

1. Marketing of rental properties, including advice on advertised pricing and arranging inspections for prospective renters.
2. Advice to property owners on tenant selection by the property owner, including credit and other checks of prospective tenants.

9 NZ Property Investors' Federation, accessed 2022: https://www.nzpif.org.nz/items/view/61936/

10 Housing in Aotearoa, 2021. Statistics New Zealand. See specifically sections on housing affordability, page 45 onwards. Households who rent typically spend around 30% of their expenditure on rent. According to the Census 2018, 52% of Māori households rent, compared to 35% of Pākehā households.

11 Careers New Zealand, Property Managers profile

3 Arranging tenancy agreements, including bond lodgements, setting up regular payments, and tracking payments.

4 Undertaking regular property inspections, responding to tenant reports of required maintenance and repairs to ensure initial and ongoing compliance with healthy homes standards.

5 Procuring maintenance services on behalf of the property owner and ensuring repairs have been timely and completed.

6 Responding to any other matters, including rental arrears, and property damage.

7 Providing periodic advice on any changes in rental price levels for ongoing tenancies to reflect rises and falls in rental market conditions.

8 Maintaining property data, including condition data and reports.

9 Managing termination of tenancies by either party.

10 Undertaking property inspections on tenancy termination, reconciliating, and settling amounts owing between the parties, and returning keys and bonds.

# Possible need for regulation

The supply of RPM services is governed by a range of principal and secondary legislation. RPM suppliers are not currently subject to any regulatory entry barriers or to any other specific mandated occupational competency requirements or performance standards. Any RPM service provider found not to be complying with relevant legislation may nevertheless continue to operate as an RPM service provider.

The setting of service standards for the delivery of RPM services, and the competency of individual RPM service providers, currently rests with industry organisations. Membership and associated competency and service standards are therefore optional and not mandatory.

The absence of defined minimum service and competency standards results in significant variation in RPM service delivery standards. This variation in turn makes comparing prices between RPM offerings very challenging for property owners.

Economic costs arising from the current operation of some RPM service providers may be avoided, reduced, or otherwise mitigated under a proposed regulatory intervention. The intervention would be applied to all companies and individuals delivering defined RPM services for explicit fees and charges.

Many RPM service providers are most likely already meeting efficient RPM service and competency standards. There is, however, clear evidence of significant variability in RPM competency and service delivery standards. A significant portion of the RPM sector appears not to be meeting competency and service standards consistent with the public policy goals, and possibly also with relevant legislation.

Where RPM service standards and competencies are lower than under workably effective competition, this is imposing avoidable social costs (“harms”) on society. These costs reduce wellbeing relating to housing services for a sizeable portion of the population and affect both owners and occupiers of rental housing.

Competition between RPM service providers is not expected to reduce these avoidable social costs. For example, it appears there is significant discounting of fees by some RPM organisations seeking to increase their rent rolls. This puts downward pressure not only on prices, but also costs and service and competency standards.[12] Industry sources indicate that the turnover rate for some RPM organisations has been nearly 20 per cent per annum, reflecting high workloads and the competing objectives of RPM companies, owners, and tenants.[13]

Given these dynamics, avoidable social costs are not considered to be self-correcting by workably effective competition in RPM markets. There is a structural, ongoing market failure in the quality and pricing of RPM service provision.

# Overview of proposed regulatory scheme

This proposed regime provides for occupational licensing and regulation of RPMs. New requirements include RPM registration and licensing, entry requirements, mandated RPM industry practice and competence standards, a complaints and disciplinary system, and offences and penalties.

## Identification of options

Several variations on the proposed regulatory scheme have been considered by HUD in developing the scheme. These concern the scope and design of the scheme, and as discussed below some aspects of the regulatory scheme have been changed. In line with instructions, this assessment has not sought to identify and quantify alternative options for the regulation of the RPM sector.

## Changes to proposed regulatory scheme relative to the February Issues Paper

In response to matters raised in submissions to the February Discussion Paper, HUD has decided to make the following key changes to the proposed regulatory scheme for the RPM sector:

- Require RPM service organisations to be licensed, as well as individuals.
- Extend the fit and proper person test requirements to include the Chief Executive, General Manager or equivalent officeholder of a RPM organisation.
- Establish a tiered licensing structure that includes individuals as well as organisations.
- Increase the minimum educational attainment requirements.
- Reduce the ongoing professional development requirements.
- Require that trust accounts be held by all organisations and audited on an annual basis.
- Extend the mandate of the Real Estate Authority (REA) to act as the regulator.

12 Advice from REINZ in private email dated 4 May 2022.

13 From consultation with a national industry body, May 2022.

- Extend the mandate of the REA Disciplinary Tribunal to enable it to adjudicate on claims in relation to RPM services.
- Extend the commitments required under the proposed RPM Code of Conduct.
- Narrowed the proposed list of offences and include specific penalty maxima.

## Summary of final scheme design as modelled

We have summarised the key elements of the proposed regulatory model in Table 2 below. More detail is available in HUD's full Regulatory Impact Assessment.

**Table 2: Summary of proposed regulatory scheme**

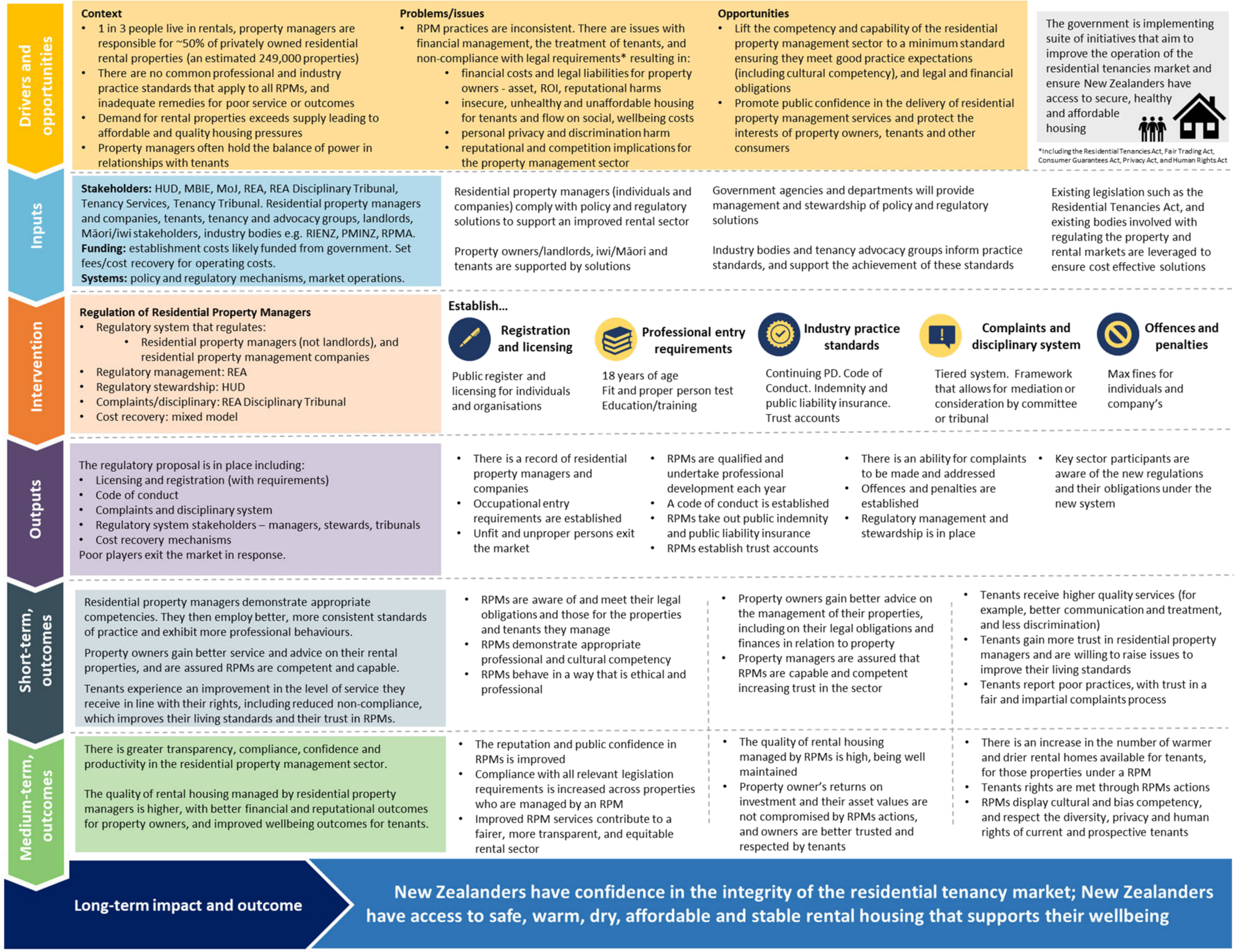
| System features | Proposed model description |
|---|---|
| Regulated parties | Provisional RPM<br>Licensed RPM<br>Licensed Master RPM<br>Licensed RPM Organisation |
| Registration and licensing | Licensing and public register for both individuals and organisations<br>Set conditions under this for each e.g., provisional can practice under supervision of a licensed master RPM |
| Professional entry requirements | 18 years of age<br>Fit and proper person test (for individual RPMs and the Chief Executives or General Managers of RPM organisations)<br>Completion of training (provisional – 2 days, licensed – 5 days, licensed master – level 4 certificate of property management or equivalent)<br>6-month vocational experience for licensed RPM<br>18 months vocational experience for master RPMs |
| Industry practice standards | Code of Conduct<br>Minimum industry practice standards<br>Indemnity and public liability insurance – organisations only<br>Annual audits of trust accounts – organisations only |
| Competency standards | Continuing professional development (verifiable) – 10 hrs per annum |
| Complaints and disciplinary | Tiered system for complaints including use of a complaints committee and the REA Disciplinary Tribunal |
| Offenses and penalties | Maximum penalties for individuals ($40,000) and organisations ($100,000) for varying offences |
| Regulatory management | Real Estate Authority |
| Cost recovery | Mixed model largely based on cost recovery from regulated parties |
| Regulatory stewardship | Te Tūāpapa Kura Kāinga – The Ministry of Housing and Urban Development |

# Intervention logic

To support the cost benefit analysis, we developed an intervention logic map with HUD. The causal relationships between the proposed intervention (the regulations) and consequential outcomes are summarised in the intervention logic map (ILM) in Figure 4 below.

Note that medium- and long-term outcomes are influenced by factors outside the residential property management sector. Any impacts of the proposed regulations are expected to contribute to these outcomes only. This is particularly true for tenant outcomes whereby improvements to properties requires both the advice from the RPM but more importantly the agreement of the property owner.

**Figure 4: Intervention logic map developed to support cost benefit analysis**



# COST BENEFIT ANALYSIS

This section sets out the results of the cost-benefit analysis. Identified costs and benefits, and the approach, inputs and assumptions to this analysis are outlined in more detail in Appendix 1.

## Summary of incremental costs and benefits

Table 3 below provides a high-level summary of incremental costs and benefits of the proposed regulatory model, in present value terms, relative to a continuation of the unregulated status quo over a forecast period to FY 2032/33.

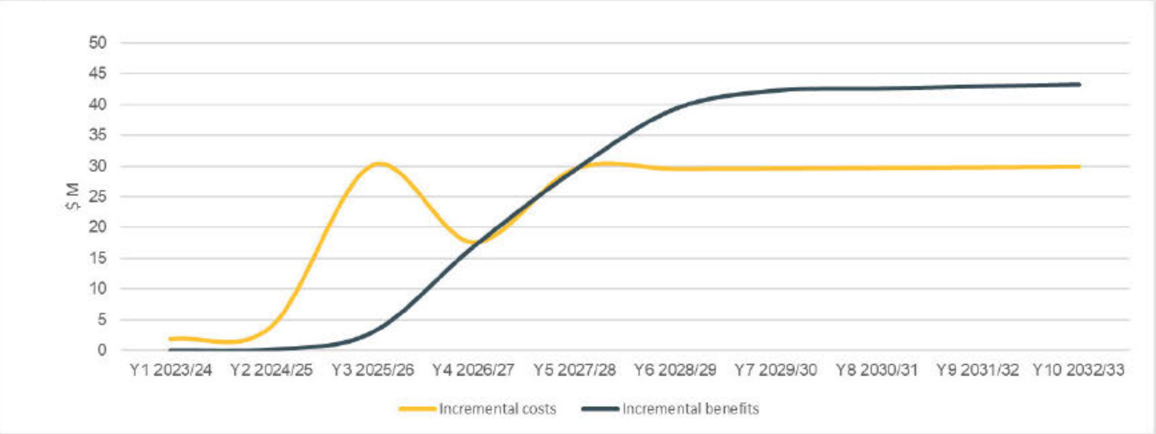
**Table 3: Summary of incremental costs and benefits**

| High level summary | Total (PV) $m |
|---|---|
| Incremental costs | 159.9 |
| Incremental benefits | 170.8 |
| Benefit to cost ratio | 1.07 |
| NPV (at 5%) | 10.9 |

The incremental net present value (NPV) of introducing the proposed regulation, under a 5 per cent social discount rate, is $10.9 m. The benefit to cost ratio is 1.07:1. This result indicates a small net benefit from the proposed intervention. Further details on other scenarios showing the impact of different assumptions and social discount rates are provided in the Sensitivity analysis section.

The profile of incremental benefits and costs over the forecast period is provided in the chart below.

**Figure 5: Incremental costs and benefits over time - $m, real**




This highlights the significant transition costs as the proposed regulatory model is implemented and a delay before benefits realisation begins and benefits are fully realised. After the transition period, benefits exceed costs for the remainder of the study period and the transition costs are fully recouped.

The results are subject to significant uncertainty, especially in relation to incremental benefits. It is possible more benefits could be realised in practice. Costs remain the most certain, however, again these are dependent on the true size of the sector which is currently unknown. This highlights the need to avoid inefficient regulatory costs wherever possible and to acquire improved data early in the transition period, so that any emerging risks and required changes can be identified and managed.

We sought quantitative data on outcomes from recent moves to improve or introduce occupational regulation in other sectors from MBIE. This data would provide benchmarks to compare the reasonableness of the estimated benefits of this proposed scheme. MBIE has indicated that such data is not readily available.[14]

## Incremental costs

Table 4 below summarises the estimated total costs of the proposed regulatory scheme over a forecast period to FY 2032/33. Further details on these costs are provided in Appendix 1.

**Table 4: Incremental costs**

| Costs | Total (PV) - $m | % of total costs |
|---|---|---|
| **Sector costs** | **131.7** | **82%** |
| Sector structure | 60.5 | 38% |
| Sector compliance costs | 71.2 | 45% |
| **Regulatory costs** | **28.2** | **18%** |
| Establishment costs | s 9(2)(f)(iv) | |
| Ongoing regulator costs | 18.1 | 11% |
| Ongoing tribunal costs | s 9(2)(f)(iv) | |
| Ongoing stewardship costs | 0.9 | 1% |
| **Total incremental costs** | **159.9** | **100%** |

| | |
|---|---|
| **Estimated regulatory burden** (as percentage of total value of RPM sector) | **2.3%** |

The bulk of incremental costs or regulatory burden are economic rather than financial. The estimated total regulatory cost inclusive of any budget funding is 2.3 per cent of the estimated total value of the RPM sector. The total incremental cost is therefore modest compared with the value of the RPM sector.

The regulatory burden assumed to be borne by the RPM sector in the first instance represents 82 per cent of the total incremental cost. Sector compliance is estimated to form the largest single component of total incremental costs – 45 per cent.

Included in this is the direct RPM sector cost of complying with entry, and initial and ongoing training in new mandated competency and service standards in line with determinations made by the regulator and any co-regulatory industry bodies. Indirect regulatory costs also fall on the RPM sector to the

[14] Inter-departmental email dated 12 July 2022.

extent that less well performing parts of the RPM sector are required to change business practices, and to procure insurance and other services, to meet new mandated service standards. A time cost for licensing is also included in these compliance costs.

The introduction of regulation is expected to result in less variation in service levels across the sector. This is reflected in a modelled 10 per cent increase in RPM numbers, to improve service levels in some parts of the sector.[15] The associated increase in both labour related costs and compliance costs for this is 38 per cent of the total estimated incremental cost (labelled sector structure costs).

It is expected that a large portion of regulator costs will be recovered from the sector in the form of fees and charges. To avoid double counting, regulator cost recovery is excluded from the totals for sector costs above. The sector costs only include compliance costs.

As discussed in the Distributional impacts section below [16], it is assumed that only part of the direct regulatory burden is passed on to property owners by the RPM sector. This reflects an assessment of the net impact of the direct regulatory costs, considering some or all the avoided costs to the RPM sector as a result of the regulations.

# Incremental benefits

Incremental benefits due to the proposed regulatory model relative to the status quo take the form of avoided economic (welfare) costs for both the supply and demand sides of the market. The major incremental benefit categories are summarised in Table 5 below.

**Table 5: Incremental benefits (avoided costs)**

| Incremental benefits | Total (PV) - $m | % of total benefits |
|---|---|---|
| Avoided costs for RPM sector | 52.0 | 30% |
| Avoided costs for residential property owners | 80.7 | 47% |
| Avoided costs for residential property tenants | 38.1 | 22% |
| **Total incremental benefits** | **170.8** | **100%** |

The largest portion of incremental benefits are avoided costs for residential property owners. This reflects avoided revenue losses, liabilities, property value effects, and operating and maintenance expenditure caused by improvements in overall RPM service levels. This could include a reduction in disputes between tenants and property owners where these impose costs on property owners (as well as tenants).[17] There could also be a reduction in excessive property repair costs, unrecoverable rental revenues, and other costs arising from the delivery of RPM services below efficient service delivery standards in well performing parts of the RPM sector. There may be improvements in the ability for

15 This is based on assumptions on the number of properties a residential property manages, and the resulting service standards RPMs who manage many properties can provide. It reflects assumed market structure impacts to improve standards of service. A further explanation is provided in Appendix 1, see Sector structure.

16 Distributional impacts refer to wealth transfers arising as a result of the new regulatory arrangements. Wealth transfers are not economic costs and benefits but shed light on stakeholder impacts and implementation risks, and sometimes have economic efficiency effects.

17 See for example https://www.stuff.co.nz/life-style/homed/renting/125365999/auckland-landlord-must-pay-16k-compensation-for-renting-out-uninhabitable-home and https://www.stuff.co.nz/business/125609295/second-landlord-of-uninhabitable-sunnyvale-property-ordered-to-pay-tenant-11000

property owners to compare services being offered by RPMs more readily, thereby enhancing competition and overall market price setting and efficiency.

While the sector wide benefits are substantial relative to total incremental benefits, they are small for individual rental properties on a unitised basis. This reflects the relatively small size of the RPM sector relative to the size of the residential rental sector, and the fact that total incremental costs represent just 2.3 per cent of the estimated total value of the RPM sector.

Avoided costs for the RPM sector are expected to form a substantial portion of incremental benefits. These avoided costs take the form of reduced conflict, liabilities, disputes, and management costs from variations in training, the ratio of RPMs to residential properties, risk management, and overall performance.

Avoided costs for residential property tenants are expected to be significant but much smaller compared with the parties directly participating in RPM markets. These avoided costs reflect improved overall levels of service where the avoided costs apply to residential tenants. For example, where repairs are addressed more rapidly and effectively, there are avoided costs arising from unsatisfactory housing standards. Where RPMs behaviour is improved, and tenants are treated with more respect there is also an avoided cost in reduced discrimination related harms.

The estimated incremental benefit for tenants reflects the fact that the proposed regulations apply only to RPM managed properties and not to all rental properties, or property owners. It also reflects the fact that the rental housing sector itself is already regulated under the status quo and hence the opportunity for further improvements under the proposed regulations appear limited. Improvements are also subject to property owner decisions about the property.

It is expected that any residual incremental regulatory costs not already borne by the RPM sector and property owners would be transferred to tenants. However, this is expected to be very small, provided that residential property markets are reasonably efficient. This is because avoided costs for property owners are expected to be close to compensating property owners for any increase in total charges payable to the RPM sector.

Further details on Distributional impacts, including the risk to residential rental prices are discussed below. Further detail on the quantification of these benefits is provided in Appendix 1.

# Sensitivity analysis

To test the impact of cost and benefit components within the analysis changing we have run a small sensitivity analysis. This is summarised in the table below. The 'core analysis' line shows the results of the cost benefit analysis undertaken (and as discussed in the main body of this report), while the lines following this show the overall CBA results when the noted model variables and inputs are changed.

**Table 6: Sensitivity analysis – $ million, present value, totals forecasted to FY 2032/33**

| *PV - $ millions* | Costs | | Benefits | | NPV | | BCR |
|---|---|---|---|---|---|---|---|
| **Core analysis** | **$** | **159.9** | **$** | **170.8** | **$** | **10.9** | **1.07** |
| | | | | | | | |
| **Variable change** | | | | | | | |
| Discount rate - 4% | $ | 171.4 | $ | 184.9 | $ | 13.4 | 1.08 |

| | | | | |
|---|---|---|---|---|
| Discount rate - 6% | $ 149.3 | $ 157.9 | $ 8.7 | 1.06 |
| | | | | |
| **Cost variable changes** | | | | |
| Regulator (REA) costs - reduced by 20% | $ 155.9 | $ 170.8 | $ 14.9 | 1.10 |
| Regulator (REA) costs - increased by 20% | $ 163.8 | $ 170.8 | $ 6.9 | 1.04 |
| | | | | |
| Trust account – annual independent reviews instead of annual audits (reduce cost) | $ 150.5 | $ 170.8 | $ 20.3 | 1.13 |
| Trust account – annual independent reviews, with audit every third year | $ 153.7 | $ 170.8 | $ 17.0 | 1.11 |
| Min educational attainment – reduced % of market able to have equivalent learning recognised [18] (increase cost) | $ 169.5 | $ 170.8 | $ 1.3 | 1.01 |
| | | | | |
| **Benefit variable changes** | | | | |
| Increase in avoided cost to sector [19] (increase benefit) | $ 159.9 | $ 177.1 | $ 17.2 | 1.11 |
| Increase in avoided cost to property owners[20] (increase benefit) | $ 159.9 | $ 202.7 | $ 42.9 | 1.27 |
| Increase in avoided cost to tenants [21] (increase benefit) | $ 159.9 | $ 179.2 | $ 19.3 | 1.12 |

Note: we have not shown changes in RPM numbers as part of this sensitivity analysis as there are many interdependencies with this figure - that is many variables would need changing wi h assumptions made about each one in relation to RPM numbers. This would bring in a very high degree of uncertainty into the sensitivity analysis itself.

The discount rate applied in a cost benefit analysis highlights the impact of estimated delays between costs being incurred and benefits being realised. As a result of these delays, the Benefit Cost Ratio (BCR) and Net Present Value (NPV) falls when a higher discount rate is applied and reduces when a lower discount rate is applied. This can be seen in the table above.

We have also chosen to model variations in core costs variables. These are cost inputs which make up a relatively large portion of costs and/or are based on uncertain input assumptions. A core cost component in the functioning regulatory model is that of the regulator. Costs for the regulator have been provided by the REA based on underlying assumptions around the number of RPMs, complaints, queries, and other functions it is posed to experience and have. As these underlying assumptions are likely to vary, we model a 20 per cent increase and a 20 per cent decrease in costs for the regulator across establishment and ongoing costs. There is a very small impact on the Benefit Cost Ratio as a result.

Trust accounts and educational attainment related costs are the largest compliance costs that the sector is expected to experience. Under the proposed regulations RPM organisations would be required to hold trust accounts and have these audited annually. The costs of meeting the audit

18 Reduced to 20% of licensed RPMs and 30% of RPMs recognised prior learning so only to complete short course (where in core model, and as main results presented in his report this is 50%, and 65%).

19 By increasing sector risk fall by half percentage point each year.

20 By increasing property owner risk fall by 0.1 percentage point across each year from what core analysis models.

21 By increasing avoided costs to tenants by 0.01 percentage point across each year from what core analysis models.

requirements make up over half of the compliance costs the sector will face. Knowing that audits are a costly exercise (particularly for small RPM organisations) it had been suggested that independent reviews may be required instead (at around 20-30 per cent less than the cost of audits).[22]

Running these numbers in this sensitivity analysis, we found the difference between requiring trust accounts to be audited annually and simply independently reviewed annually, is estimated at $9.4 million for the sector across the forecast period to FY 2032/33. Reducing costs by $9.4 million through this action would see the Benefit Cost Ratio increase to 1.13:1.

If audits are still to be completed, but to be completed every three years with independent reviews in between years, this would see the cost drop by $6.1 million, and the Benefit Cost Ratio increase to 1.11:1 (compared to the current proposed option to undertake audits annually). Trust account requirements have a serious cost impact, making up over half of overall estimated compliance costs to the sector, so must be carefully considered.

Based on the current regulatory model there is an expectation that prior learning and equivalent knowledge and experience will be recognised across the licensee classes. In this sensitivity analysis we reduce the assumption that 65 per cent of those seeking to license under a Licensed Master RPM (when the regulations first come into force) can have prior experience recognised to just 20 per cent (equal to the portion we assume hold a Level 4 Certificate of Property Management already).

For Licensed RPMs we reduce figures from 50 per cent to 30 per cent (in line with the portion who we assume would currently complete the educational requirements for this licensee class already). This sensitivity shows that if recognition of equivalent experience is not able to be recognised there will be a visible impact on compliance costs to the sector. There would be a $9.6 million increase in costs to the sector across the forecast period to FY 2032/33. The Benefit Cost Ratio falls to 1.01:1.

While we are most certain about costs overall, we are least certain about benefit inputs. For sensitivity purposes we model increased benefits/avoided costs for the sector, for property owners, and for tenants. If avoided costs to the sector were greater (by 0.5 percentage points each year) than the core model assumes then this would result in an increase in benefits of $6.3 million across the forecast period to FY 2032/33. The Benefit Cost Ratio would be higher at 1.11:1.

If property owners avoided costs fall to a greater degree than modelled in the core analysis, (for technical purposes an additional fall of 0.01 percentage point across each year), benefits rise significantly – by $32 million across the forecast period. This is so significant due to the overall value of the market. We stress this is highly uncertain and question the reality of this in practice. However, the sensitivity does illustrate how even small impacts in risk reduction or avoided costs could benefit the RPM sector and property owners.

The same is true for tenant benefits. Should there be less discrimination to tenants and improved living conditions as a result of the regulations for RPMs, by even a small amount (for technical purposes by an additional fall of 0.01 percentage points in each year), then benefit gains are notable – around $8.4 million across the forecast period. Based on the information we currently have, our understanding of the market, and the caution required in applying the underlying measures for these benefits, we believe the figures applied in the sensitivity result in benefits at the upper bounds of realisable, quantifiable benefits for tenants relative to other parts of the sector.

[22] Information collected by HUD, provided by MFA Chartered Accountants and Grant Thornton.

This sensitivity highlights that more overall benefits could be realised, this is always possible. The level of net benefits also depends on the ability to reduce costs through regulations where it may cause unnecessary burden and benefits cannot be clearly realised from the requirements.

# Competition impacts

Regulation represents a constraint on competition and therefore imposes costs, as detailed above. Mandated minimum standards could potentially result in inefficient outcomes where willing and informed buyers and sellers agree to standards below mandated levels.

The incremental costs from restricting competition, where prevailing standards are not a result of informed decision making may nevertheless be efficient. This is provided so the incremental costs from restricting competition do not exceed the avoidable costs of current market inefficiencies and failures.

The estimated benefits in the previous section seek to quantify the extent to which the proposed regulatory intervention would decrease current market failures. The intervention should be designed in detail to improve competition and the efficiency of RPM markets by reducing current information asymmetries between the suppliers (RPMs) and the purchasers of RPM services (property owners).

The intervention should not have the effect of inefficiently changing the market structure and workable competition within the sector. It should support horizontal and vertical integration with related markets, where this is efficient.[23] However, the detailed design should not encourage inefficient horizontal or vertical integration with related markets. This is because there may be efficiencies from specialisation in RPM services.

To minimise adverse competition effects, the detailed regulatory design should avoid applying practices from related markets that may not be proportional to risks being managed by the RPM sector. For example, in terms of revenue risk reduction measures, these should be proportional to the value of the revenue at risk from rental revenue streams.

Horizontal integration appears to be efficient in some situations, especially in regional areas where there may be insufficient rental properties within a given geographical area to support many specialist RPMs. The detailed regulations should therefore avoid outcomes that could inhibit efficient horizontal integration, especially in regional areas. This means the total regulatory burden for dual market RPMs should not be inefficiently duplicated. Otherwise, there could be a reduction in the price or availability of RPM services, especially in regional areas.

# Qualitative benefits

Provided the competency and service quality of RPMs improves because of mandated standards, it is expected that in time there will be greater transparency, compliance, and consumer confidence in the residential property management sector. It is possible that higher standards across the sector could eventually lead to an increase in the portion of the residential rental sector that is managed by RPMs, increasing the potential returns to PRM service providers from economies of scale. These possible

[23] Vertical integration would exist where RPM companies also offer real estate transaction services (upstream) or property maintenance services (downstream). Horizontal integration is where residential RPM companies also offer commercial RPM services.

benefits are highly uncertain and are second order effects. They have not been quantified in this analysis.

There could be a reduction in the levels of culturally insensitive, discriminatory, or illegal behaviour that may be displayed by RPMs and experienced by tenants. Illegal behaviour may include actions which breach the privacy and human rights of owners and occupiers. This reduction in insensitive and illegal behaviour is not quantified in this cost benefit analysis, however a small reduction in discriminatory harms has been accounted for.

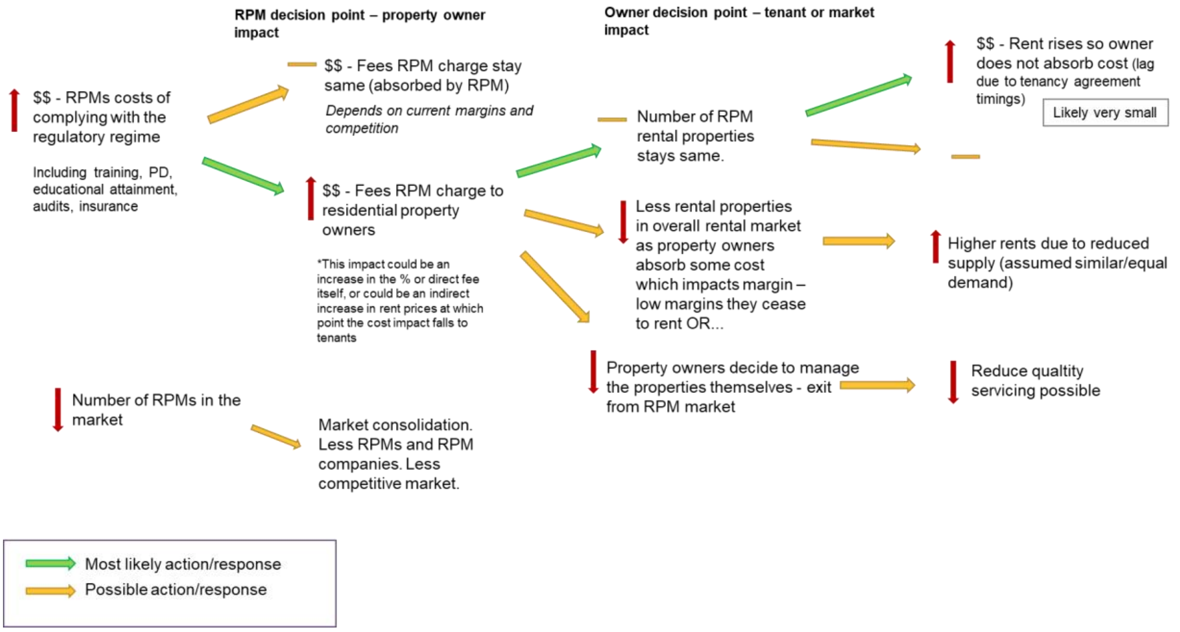
# DISTRIBUTIONAL IMPACTS

## Possible distributional impacts

Decision makers are concerned about the distributional impacts of projects and policies. Distributional analysis is an important supplementary step to provide decision makers important information about the overall outcomes for the community. Distributional analysis furthers the informative value of a CBA by articulating how costs and benefits are distributed across different cohorts of a population. Distributional analysis can thus provide greater information to decision makers about how certain cohorts are affected differently by particular policies.[24]

Figure 6 outlines the possible distributional and competition impacts to the market from the introduction of the proposed regulations, and again highlights the need for these risks to be managed.

**Figure 6: Risks and uncertainties of the proposed regulations on distributional impacts and competition in the market**




The figure moves from direct impacts of regulation on RPMs, on the left-hand side, across to the indirect impacts on rental accommodation service and quality standards on the right. It highlights key decision points on how the RPM sector may respond to regulation.

These responses include the extent of investment in additional training and additional labour to meet mandated training and service standards. They also include any consequential changes in the RPM sector including changes to margins and prices charged for RPM services. There may also be

24 See Distributional analysis guidance note, Office of Best Practice Regulation, Commonwealth of Australia, 2021. https://obpr.pmc.gov au/resources/guidance-assessing-impacts/distributional-analysis

changes to the structure of the market structure. For example, larger entities may be better able to manage and limit incremental compliance costs where smaller entities may not, causing smaller entities to exit the market.

Similarly, property owners can be expected to respond to any changes in RPM services and charges, other things being equal. Over time, responses could result in an increase or decrease in the proportion of the rental housing stock that is managed by RPMs. If property owners perceive benefits exceeding costs, then the RPM share of the total market may increase. Alternatively, it is possible that some property owners could seek to avoid regulation by resuming the property management function themselves.

We note here that HUD is proposing mitigating measures to address the risk of landlords choosing to manage their own properties to avoid compliance with RTA requirements. Proposed measures include providing the Tenancy Tribunal with the power to require landlords to have their properties managed by a licensed property manager if they are found to be repeatedly committing an unlawful act. HUD also expects that as a result of the introduction of the regulatory system the Tenancy Services Compliance and Investigations Team will be able to focus its resources on landlords that manage their own residential tenancies as they will have greater confidence that RPMs are complying with RTA requirements.[25]

Property owner responses could also result in small changes in rental price levels to recoup any net cost from regulation. It is therefore possible that a portion of the direct and indirect costs from introducing regulation to the RPM sector could place upward pressure on overall rental levels. These risks are likely to be modest relative to other variables influencing changes in rental price levels.

## Our general assessment of distributional impacts

Overall, our analysis shows there will be a net cost to the sector. This cost is in the thousands per year per RPM, while per property this works out to be around $70 per property per year as an average across the forecast period to FY2032/33. For these reasons, alongside current market dynamics, we see the net sector cost being passed to property owners.

The net cost figures are small at a per property level, as well as at a rent per week level – the equivalent of $1-$2 per property per week if all net sector costs were passed to tenants. Given these conflicting factors it is uncertain as to whether property owners will simply absorb the cost or pass to tenants in the usual course of rent increases. The core assumption underpinning this pass through is that the sector considers both costs *and benefits* (which are economic in nature so perhaps more difficult to see), and reflects on net costs.

On balance, as currently modelled, we see economic and social benefits to tenants outweighing this possible, flow through, financial cost for tenants. This is a positive distributional story, particularly considering that our residential rental population typically have lower incomes and are more likely to live in poorer living conditions than homeowners. Māori and Paskifika households are also more likely to rent than Pākehā households.[26] However, to ensure no, or limited, negative distributional impacts from the introduction of the regulations occur, risks need to be managed in the transition, as the new regulations are developed and introduced. These risks and impacts must also be tracked for ex-post evaluation.

[25] These risk measures and expectations and any of their impacts have not been explicitly modelled in this cost benefit analysis

[26] Census 2018. See also Statistics New Zealand (2020) Housing in Aotearoa (updated 2021): Housing in Aotearoa: 2020 (stats govt.nz).

# TRANSITION AND EVALUATION

There is a significant degree of uncertainty regarding key variables for the cost benefit analysis. These uncertainties are greatest for benefits. These uncertainties are driven by poor data. Consciously managing transition costs and risks and collecting relevant data to inform evaluations after the regulations are implemented is critical.

## Minimising transition costs and managing risks

Actual benefits and costs will depend on the detailed design and implementation of the new regulatory arrangements and the extent the introduction of new mandatory standards governing RPM service providers improves the overall level of service delivery across the RPM sector. It is important that the design of mandatory standards seeks to maximise benefits for the users of RPM services, while minimising associated costs for RPM service providers.

For example, the detailed design of the new arrangements should continue to seek to avoid inefficient duplication of regulatory and competency standards required in related markets. If, in the transition, changes are made to the regulatory scheme that increase costs, or reduce benefits, or a combination of both, then the findings of the present assessment of the regulatory proposals may no longer apply.

## Importance of acquiring data

In line with the relevant guidance, data must be acquired to measure the current standards and prices of RPM services so that changes arising from the introduction of the new regulations can be tracked over time. Among other things, as new information is gathered, the regulatory steward for this regulation (HUD) may need to identify where any changes to the regulatory design may be beneficial.

This would ensure that any currently unforeseen risks, costs, and opportunities could be identified. Once identified, consideration can then be given to adapting the implementation of the new regulatory design to ensure that costs are minimised, and benefits maximised.

Key information requirements are summarised in Table 7 below. Systems and supporting regulations for acquiring and making this data accessible should form part of the development of the new regulatory arrangements. This may require coordination with other regulators, including Tenancy Services regarding data gathered when new tenancies commence or are extended.

## Proposed key performance indicators for evaluation

Table 7 below identifies a set of KPIs and the rationale for these.

**Table 7: Proposed key performance indicators for evaluation**

| Data required / Key performance indicator | Rationale |
|---|---|
| Number of registered or licensed RPMs | To track changes in RPM service provider numbers before and after regulation is introduced |
| Number of properties managed by RPMs | To track changes in RPM service provider volumes before and after regulation is introduced |
| RPM fees and charges at an aggregated level | To track the value of the market supplied by RPMs before and after regulation is introduced |
| RPM licence fees and direct regulatory compliance costs | To track the direct regulatory burden following the introduction of regulation |
| Professional skills development/maintenance hours per RPM annually | To track the cost of compliance with the regulatory burden following the introduction of regulation |
| Summary of competency levels attained within a period | To track changes (improvements) in competency levels over time |
| Reported alleged breaches of the mandatory standard per annum (complaints) | To track service RPM delivery performance standards following the introduction of regulation |
| Breaches of healthy homes standards in RPM managed properties | To track service RPM delivery performance standards compared with the wider rental market, following the introduction of regulation |
| Actual breaches of the mandatory standards per annum (fines, deregistration etc. issued). | To track the incidence of proven breaches and disciplinary actions following the introduction of legislation |

The list above focuses on quantifiable variables as these are most useful for comparing expected and actual outcomes. Qualitative data could also provide useful supplementary information, including any data from surveys of tenants, property owners, and RPMs on perceived performance.

# APPENDIX 1: CBA APPROACH, COSTS AND BENEFITS, AND INPUT ASSUMPTIONS

This appendix outlines the overall approach to the cost benefit analysis modelling undertaken, and outlines the identified costs and benefits, and core input assumptions with the CBA model.

## Approach to cost benefit analysis modelling

This cost benefit analysis was prepared in line with the New Zealand Treasury's G*uide to Social Cost Benefit Analysis*, dated July 2015. To identify costs and benefits as a result of the proposed regulations (i.e., incremental only), an Intervention Logic Map (ILM) was developed in conjunction with HUD (see Figure 4). We have used this working ILM to ensure all relevant costs and benefits are captured through the analysis.

A cost benefit analysis model was built from scratch within excel to complete the analysis. Within the model incremental costs and benefits are:

- quantified over a period of 11 years (from FY 2022/23 to FY 2023/22), with Year 0 the current year (2022/23), and establishment in Years 1 and 2 (2023/24 and 24/25) to align with current regulation timeframes
- broken into broad stakeholder areas; regulator, sector, property owners, and tenants
- exclusive of GST
- inclusive of both financial and economic [27] costs and benefits
- inputted in current dollars (2022), then
- discounted across the 11 years at 5 per cent per annum as per Treasury guidance [28] to get present value figures.

Core inputs and assumptions underpin the cost and benefit calculations. These were informed by information gathered through discussions and documents provided by HUD, RIENZ, RPMA, the REA, MBIE, and the Ministry of Justice. We've also applied past experience in modelling with similar inputs alongside research into the costs of specific inputs.

27 These include time and opportunity costs and benefits (which may not be explici ly financial in nature)

28 The Treasury, Discount Rates. Accessed July 2022, at: https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/financial-reporting-policies-and-guidance/discount-rates

At a broad level these underpinning assumptions cover:

**Table 8: Underpinning assumptions to the cost benefit analysis model**

| Key variable | Current assumption as modelled |
|---|---|
| Size of the overall residential rental market | $15 billion (in rental revenue) |
| Size of residential rental market under RPMs | $7 billion (in rental revenue) |
| The fees and charges of RPMs (accounting for minimum charges, letting and inspection fees) | 9.6% of rental income - on average |
| Staffing related costs per RPM per year | $115,200 – average |
| The ratio of RPMs to properties (reflective of the number of properties an RPM manages) | On average – 67 *(there is a wider distribution of ratio across the sector underpinning this)* |
| Residential rental properties likely to be covered by the regulations | 249,000 |
| Tenants likely to be covered by the proposed regulations | 672,300 |
| Residential property managers (RPMs) in the sector | 3,700 |
| Residential property management organisations in the sector | 400 |
| Change in properties, tenants, RPMs and RPM organisations in the market over time | In line with population growth forecasts (0.8-0.9% pa.) |
| Turnover of RPMs in the market | 15% - falling gradually to 10% after regulations come into force |
| Turnover of RPM organisations in the market | 5% per year |
| Portion of RPMs who fit each licensee class as per proposed regulations | 20% Provisional/ 50% Licensed/30% Licensed Master – remains constant over time, with key assumptions on turnover and progression through classes made to match |
| Proportion of each licensee type who may already meet (and therefore be granted exemptions) for specific requirements under the proposed regulations | *Discussed in below section* |
| The number of RPMs that may enter the market as RPM to properties managed ratios fall, in line with assumption that some current underservicing is a result of high ratios of RPMs managing properties, at one end of the market | 10% increase (106 RPMs, phased in over 3 years)<br>*Discussed further in below section* |
| The level of current risk, liability, and harm in the market – across the RPM sector, property owners and tenants | *Discussed further in below section* |

These underpinning assumptions are supported by more specific input assumptions in identifying and quantifying each cost and benefit realised by those impacted. Specific assumptions cover:

- The timing or phasing of cost and benefits as they are realised.
- The timing, resourcing, and costs of each activity – including compliance activities, but also functioning and service activities related to the regulator, tribunal, and steward's operations.

Numerous variations of the cost benefit analysis model were run to test the bounds of core inputs and assumptions and observe the impacts of these on the benefit cost ratio. This has supported our understanding of certainty. The Sensitivity analysis presented in the main body of this report provides an outline of key variations.

# Identified costs and benefits

Identified costs and benefits were modelled across core actors in the market; government/the regulators, the RPM sector, property owners, and tenants. Costs and benefits have been considered out to the financial year 2032/33.

## Regulator costs

Under the proposed regulatory model, a regulator, tribunal, and steward will be required. In undertaking their functions each will incur financial costs. Initial cost estimates were provided by the REA (who is the proposed regulator), the Ministry of Justice (as the REA Disciplinary Tribunal is proposed as the tribunal). Steward costs have been estimated based on conversations with HUD (as the steward).

Both the REA and the Ministry of Justice provided their own cost estimates, and these have been integrated into the cost benefit analysis. Their cost estimates were based on a standard set of base assumptions as suggested by HUD. HUD received input from RIENZ, Tenancy Services, the REA, and the Tenancy Tribunal to develop these initial working assumptions:

- 5,000 individual residential property managers as the estimated licensed population.
- 500 new licenses issued per annum.
- 431 residential property management organisations (including franchise offices).
- 500 complaints enquiries per annum.
- 6,950 phone calls per annum.
- 100 formal complaints per annum.
- 12-month transition time for individuals/organisations to register/license.
- s 9(2)(f)(iv) [redacted].
- Suggested provision to be made for establishment and ongoing marketing and communications costs.

Cost estimates for establishment (years 1 and 2, FY 2023/24 and 24/25) and ongoing costs were received and reviewed. 'Ongoing' costs have simply been applied across the remaining years to FY 2032/33. s 9(2)(f)(iv) [redacted]

Most regulatory and tribunal costs are expected to be recovered by charging licensee fees and levies, that is, they will be borne by the RPM sector. Note: this analysis does not explore cost recovery models.

## Costs to the RPM sector

The direct costs of regulation are assumed to fall almost entirely on RPM service providers. These costs have been quantified from year 3 (FY 2025/26) when regulations come into force:

**Compliance costs**

Compliance costs cover both financial and economic (mainly time) costs associated with meeting the regulatory requirements. Time costs are based on figures from a compliance time cost analysis, for paid employees, from Inland Revenue at $36.44 per hour in 2022 dollars.

Compliance cost calculations match the requirements of each license class and span:

- One-off activities, such as
  - time cost to register/license under a license class (which is required when entering the market, but also when moving up license classes). *Note: sector fees capture the financial cost of licensing*
  - the financial and time costs to undertake a fit and proper person test (modelled based on the current cost to apply for a police vet and criminal conviction check)
  - the financial and time costs to meet minimum educational attainment requirements.
- Ongoing costs, such as
  - the financial and time cost to undertake continued professional development
  - the time costs for training (which covers general application and reading of Code of Conducts and standards updates)
  - the financial and time costs to RPM organisations associated with trust accounts, and public liability and indemnity insurance requirements.

Table 9 below summarises the detailed assumptions which have been made with respect to compliance cost activities. Note that these are on average, and for modelling purposes only. We note a short explanation or source of reference for each of these input assumptions.

**Table 9: Detailed assumptions for sector compliance activities – key inputs**

| | Provisional | Licensed | Licensed Master | Organisation | Estimates based on costs from |
|---|---|---|---|---|---|
| **Financial costs - $** | | | | | |
| Fit and proper person test | $20 | $20 | $20 | $98 | Criminal and police vet check costs |
| Min educational attainment | $300 | $1,000 | $1,700 | - | REINZ courses, L4 Cert of Property Management |
| Min educational attainment refresh course* | | $300 | $500 | | Industry body discussions |
| PD courses (annual) | $350 | $350 | $350 | - | REINZ courses |
| Indemnity and public liability insurance (annual) | | | | $3,000 | BizCover |
| Trust account audits (annual) | | | | $18,500 | MFA Chartered Accountants, Grant Thornton |
| **Time/opportunity cost – hours** | | | | | |
| Registration and licensing time | 3 | 3 | 3 | 5 | Estimate |
| Fit and proper person test | 1 | 1 | 1 | 5 | Estimate |
| Min educational attainment time | 18 | 45 | 715 | | 2 day/ 5 day – travel/prep time included Level 4 courses – 11 hrs per credit |
| Min educational attainment refresh course* | | 10 | 20 | | Industry body discussions |
| PD courses (annual) | 12 | 12 | 12 | | 10 hrs + prep time |
| Training time (annual) general | 8 | 8 | 10 | 18 | Provision for time to be up to date with code of conduct and application of best practice |
| Insurance time costs (for organisation, annual) | | | | 5 | Estimate, prep/review time each year |
| Trust account audit time (for organisation, annual) | | | | 20 | 3 hrs a month to prep reconciliations, 8 hrs prep time spent with auditor once a year |
| **Time/opportunity cost – $ per hour** | | | | | |
| Time cost per hour (2022$) | $36.44 | $36.44 | $36.44 | $36.44 | IRD compliance time cost analysis for paid employees |

Note: all costs exclude GST. At an organisational level these are average costs. Source links and details with further calculations and explanations of these inputs are provided in he CBA model. We have not explicitly outlined licensing and registration financial costs here as they are a form of distributional costs in this regulatory model and are yet be determined through a cost recovery process.

*Used to account for the impact of those existing RPMs which may be able to get their prior experience and learning recognised. Instead of having to complete the Level 4 certificate, we assume that a portion of the existing licensed and licensed master RPMs would be able to simply complete a refresher course.

It is assumed that a portion of RPMs in each licensee class would meet each of these compliance needs (to varying degrees) in any given year regardless of whether regulations were in force or not. Costs to reflect this are excluded, to ensure only incremental costs are captured.

It is also assumed that a percentage of the current RPMs in the sector will have prior knowledge recognised upon initial licensing, subject to providing appropriate evidence to the regulator. Purely for modelling sake, it is assumed that a short refresher course or test can be undertaken by Licensed and Licensed Master RPMs to account for equivalent experience (reflective of the license class).[29] An adjustment in costs to reflect this has been made to ensure only incremental costs are captured in the analysis. Table 10 outlines these assumptions.

**Table 10: Assumed RPMs and RPM organisations already meeting key regulatory requirements**

| | Provisional | Licensed | Licensed Master | Organisation |
|---|---|---|---|---|
| **Percentage of license class estimated already has or completes activity (in status quo)[1]** | | | | |
| Minimum educational attainment | 0% | 30% | 20% | - |
| Ongoing professional development | 0% | 35% | 45% | - |
| Insurance | - | - | - | 80% |
| Trust account audits | - | - | - | 5% |
| **Percentage of license class estimated already has or completes activity and/or would meet equivalence upon licensing in the first year[2]** | | | | |
| Min education attainment | 0% | 50% | 65% | |
| Ongoing professional development | 0% | 35% | 45% | |
| Insurance | - | - | - | 80% |
| Trust account audits | - | - | - | 5% |

1 These percentages are used to account for costs exclusions *after* the first year of regulations coming into force.

2 These percentages are used to account for cost exclusions in the first year of regulations coming into force, when existing experience may be accounted for, for those currently operating in the market and licensing for the first time under the new regulations.

These assumptions have been based on discussions with industry bodies, including REINZ and the RPMA. For minimum educational attainment it was noted that the Level 4 Certificate in Residential Property Management has only been provided since 2020, so industry stakeholders suggested that less than 25 per cent of RPMs are likely to hold the qualification. However, there are a number of long-standing RPMs in the sector so it's possible that around 60 per cent of RPMs are likely to hold a certificate or equivalent training or experience which could be recognised as prior learning and knowledge equivalence under the proposed regulatory model. We've made assumptions across the licensee classes based on these figures, taking into consideration the licensee class requirements.

It was also noted in discussions that most organisations providing residential property management services are likely to already hold some form of public liability and indemnity insurance. We estimate

29 It is assumed that this course or test will be developed or run by a third party to the sector. Otherwise this exemption scheme may 1) extend the functions of the regulator and 2) add additional costs to the regulator in addition to the sector.

80 per cent of organisations would meet the current insurance requirements based on this understanding.

Real estate companies (of which some also provide RPM services) are already required to hold trust accounts under real estate industry regulations. Some organisations solely providing RPM services may also have trust accounts but are unlikely to have them audited each year. Both of these types of companies would need to incur costs for holding trust accounts for residential property management transactions and having them audited annually. Taking account of this, we've assumed only 5 per cent of organisations are meeting trust account requirements as per the currently proposed regulations.

In modelling compliance costs for trust accounts, we have assumed the audits will not be undertaken in the year an organisation first registers, nor in the following year as you audit based on the prior financial year. This 'phasing' or delay in the application of compliance costs for undertaking an audit aligns with the understanding that some organisations will have a tax year that differs from the government's financial year (as modelled July – June financial year, where private organisations are likely to have an April – March financial year).

**Sector structure**

The introduction of regulation is expected to result in less variation in service levels across the sector, where one factor of service levels is the number of properties an RPM manages. In improving service levels we assume that RPMs managing a high number of properties may need to reduce the number of properties they manage. To account for this improvement in service in some parts of the sector (technically modelled as a fall in the ratio of properties being managed per RPM), we model a 10 per cent increase in RPM numbers (on 3,700). A greater number of RPMs is required to service the same number of properties currently in the market.

Whether growth occurs in practice will have to be seen, however we do expect a cost to fall on the sector through some form of structural adjustment. This modelling reflects these anticipated costs.

We label the costs associated with this as sector structure costs. These costs cover:

- The increase in labour related costs for the 106 RPMs that enter (or equivalent).
- The compliance costs for the 106 RPMs (or equivalent).

In modelling these costs we assume all RPMs fall into the Licensed RPM class, and costs are phased over a three-year time period from 2025/26 (when regulations come into force).

**Sector fees – distributional cost borne by the sector**

As a distributional cost (not an incremental cost), sector fees are the financial costs of registration and licensing (which is required when entering the market, but also when moving up license classes). These are regulatory costs which get passed to the sector through cost recovery.

Sector fees are excluded from the above compliance and sector structure costs, where only time costs of licensing are quantified, as again, sector fees are distributional in nature. In the modelling undertaken we have anticipated licensing fees by licensee class to illustrate sector fees, however these were reflective of overall regulatory costs, and they are in no way indicative of the true fee to be set as part of the anticipated cost recovery model.

## Benefits to the RPM sector

Benefits to the RPM sector are in the form of avoided costs. These take the form of reduced conflict, liabilities, disputes, and management costs from variations in training, the ratio of RPMs to residential properties, risk management and overall performance. To model this, we assume a portion of the gross margin of the RPM sector (rental fee income and charges less staff related costs, including overheads) is captured or at risk due to current variations, and poor behaviours and actions. Currently we estimate this risk to margins at around 15 per cent.[30]

As a result of the introduced regulations and the resulting improvement in the integrity in the market, we expect this risk to fall. Benefits are not realised immediately. We model a percentage drop in this risk margin to 10 per cent, beginning and decreasing gradually from the year following commencement of regulations (2026/27). Benefits are derived from the value of this fall/avoided cost from risk margins. The percentage change is the key driver of results, not the starting risk margin assumption.

## Benefits for property owners

Benefits, in the form of avoided costs, are also expected for property owners. These benefits take the form of avoided revenue losses, liabilities, property value effects, and operating and maintenance expenditure caused by improvements in overall RPM service levels. They also reflect possible improvements in the ability for property owners to compare services being offered by RPMs more readily, thereby enhancing competition and overall market price setting and efficiency.

To model this, we assume a portion of the gross margin of the property owner (rental income less charges and fees paid to RPMs) is captured or at risk due to poor RPM service levels. Currently we estimate this risk to margins at 1 per cent.[31] Though a small portion, perceived as conservative, the value of this risk and cost capture in the total market is currently around $63 million. As above, it's the relative percentage point fall in this risk percentage that matters most.

As a result of the introduced regulation, we model a drop in the risk percentage to 0.70 per cent. This reduction is modelled to be gradual over three years from 2026/27 (the year following enforced regulations). Benefits are derived from the value of this fall/avoided cost from margins.

## Benefits for tenants

Benefits for tenants are also in the form of avoided costs. They reflect improved overall levels of service where the avoided costs apply to residential tenants. We have used welfare related measures from within the Treasury's CBAx model inputs list to quantify benefits to tenants. We sourced up to

30 There is limited evidence on which to base this exact percentage on. However, it is very clear that there are risks and costs to the sector from poor RPM servicing and behaviours, and a range of conflicts and disputes within the RPM sector exist. We would expect a drop in these as a result of occupational regulation. However occupational regulation will not avoid all of these risks and costs, and as a sense check the result of this risk premium drop (and experienced avoided cost) is unlikely to be greater than the costs of regulatory requirements themselves. This understanding of risk has been tested with industry bodies and is seen in evidential case studies such as those noted in *A Call for Change: Better Property Management (REINZ, 2020) and* [A Decade Overdue: The need for regulation of property management in New Zealand (2018)](#).

31 As above, but with respect to property owners, who also clearly face risks and liabili ies as a result of some poor behaviours and actions (or in-actions) from RPMs. As a sense check on the benefits modelled, we anticipate the majority of benefits to fall to property owners, in line with them being direct recipients and users of residen ial property management services.

date non-market measures for these relevant model inputs from a 2020 wellbeing outcome analysis produced for Kāinga Ora by Kōtātā Insight.[32]

The Kōtātā Insight analysis used valuation techniques to estimate the compensating or equivalent surplus associated with housing, social and economic outcomes, using data from the 2014 wave of the New Zealand General Social Survey (NZGSS). The report notes “compensating or equivalent surplus reflects the amount that a good or service is “worth” to an individual and is equivalent to the complete impact that the good or service has on the person’s utility or wellbeing”.[33]

While Kāinga Ora tenants were the key group in focus, the general population was also studied as a comparable sample group (using a similar reference median income to Kāinga Ora tenants of $26,200). The results of the valuation provide an estimate range of equivalent surplus values for these figures key wellbeing outcomes covering: ‘house condition’, ‘house cold’, and ‘victim of discrimination.’ This cost benefit analysis draws on these values, converting them into 2022 dollars (from Q1 2019 dollars).

We apply very small improvements or reductions in estimating benefits across these measures as:

- the proposed regulations apply only to RPM managed properties and not to all rental properties, or property owners
- the rental housing sector itself is already regulated under the status quo and hence the opportunity for further improvements under the proposed regulations appear limited
- improvements to properties are subject to property owner decisions about their respective property (and property owners are not covered under the proposed regulations)
- the valuation and application of wellbeing compensating or equivalent surplus values is highly situational, underpinned by the relationship between income and life satisfaction (in the Kōtātā Insights analysis the values used are derived from an evaluation at the relative median income of social housing tenants)
- Treasury CBAx advice is to be cautious when applying compensating or equivalent wellbeing figures, given the limited experience with subjective wellbeing valuation techniques
- the Kōtātā Insight analysis itself notes results should be treated and applied with caution.[34]

For this cost benefit analysis, we take the low point of the compensating or equivalent surplus value range[35] for each measure/identified benefit. To quantify benefits across these we then:

- estimate a percentage change from an from unknown base for the specific benefit/measure
- multiply the change by the compensating or equivalent surplus value
- multiply the above value by the number of tenants in the RPM market.[36]

32 Kōtātā Insight; behavioural economic and social analysis (2020) for Kāinga Ora. Valuing Wellbeing Outcomes: cost -wellbeing analysis of housing outcomes in the New Zealand General Social Survey. Housing-wellbeing-valuation_final-paper_2020.pdf (kaingaora.govt.nz).

33 As above, see page 10, also see page 28 for a more detailed explanation.

34 As above, see page 29.

35 We note that the higher end of these estimates may be more reflective of tenant incomes, but apply caution so opt to use lower estimates to capture.

36 Which itself is based on the number of properties managed by RPMs multiplied by the average household size – 2.7 according to Census 2018.

This gives the total benefits/avoided costs to the tenant section of the RPM market for the specific benefit being quantified. Quantified benefits for tenants are:

### Housing/living condition improvements

Tenants typically live in less maintained and poorer housing than homeowners. It is likely that property managers are responsible for managing properties which would be deemed as poor to live in and/or not well maintained, but figures around this are unknown for the RPM market specifically.[37]

However, we do anticipate that improvements in RPM standards and services are likely to contribute to improved housing conditions for tenants. For example, where repairs are addressed more rapidly and effectively, there are avoided costs arising from unsatisfactory housing conditions.

The Kōtātā Insight analysis notes the low range equivalent surplus for 'house conditions: some problems' at -$4,044 (Q1:2019), we convert this to 2022 dollars to give an input variable of -$4,501. This implies that an individual would need to receive $4,501 to live for a year in a house with some problems in its condition.

Assuming some tenants managed by RPMs are currently living in houses with 'some problems' in condition, the regulations are expected to reduce this number by improving housing conditions.[38] Some welfare for this portion of the market is no longer impacted (or more accurately, 'needing' to be compensated). We assume the reduction in negative welfare impacts is gradual, and is realised over time from 2026/27 (a year after regulations are enforced), falling eventually by 0.05 per cent.[39] For simplicity this reduction is applied across the entire tenant market managed by an RPM.

### Housing temperature improvements

Tenants typically live in colder homes, with less heating options and appliances and more mould than homeowners. It is likely that property managers are responsible for managing some of these cold tenant homes, and while we know some have failed to fix this, figures around the rate of cold homes serviced by RPMs are unknown.[40]

However, we do anticipate that improvements in RPM standards and services are also likely to contribute to improved housing conditions with respect to housing temperature. For example, where repairs are addressed more rapidly and effectively, there are avoided costs arising from living in a cold rental property.

37 For evidence of poor living conditions across the residential rental property market see: Statistics New Zealand (2019): Renting vs owning in NZ | Stats NZ, Housing in Aotearoa: 2020 (stats govt.nz), and 2015 House Condition Survey results | BRANZ, also ASRUPeoplesReviewofRentingWebversion.pdf (rentersunited.org.nz), also see specific examples in the media such as: that When home is hell: Tenant who twice battled and won against property managers pleads for regulation | Stuff.co.nz.

38 We see evidence of his for the entire rental market (as above footnote), however note that the prevalence of poor conditions across the residential property market that is managed by RPMs as a whole is unknown. We also note that improvements to housing conditions are regulated under the RTA, and other legislation such as Healthy Homes, and changes to conditions are influenced by o her actions including property owner decisions about the property – we need to be cautious about causality. As explained in the text we are also cautious in our application of wellbeing surplus figures. For all of these reasons we have chosen to be cautious in our estimates here.

39 As above. Benefits to tenants are sense checked on our understanding of occupational regulation benefit flows – it would be unreasonable to expect the majority of benefits to accrue to tenants when there is limited to no cost to them as a result of the regulations, and where property owners are the main recipients and users of RPM services. We are wary of causality, and the technical application of surplus measures.

40 For evidence of cold living conditions across the residential rental property market see: Statis ics New Zealand (2019): Renting vs owning in NZ | Stats NZ, Housing in Aotearoa: 2020 (stats.govt.nz), and 2015 House Condition Survey results | BRANZ, and What property managers think of the cold, damp homes they look after | The Spinoff

The Kōtātā Insight analysis notes the low range equivalent surplus for 'house cold: sometimes' at -$3,591 (Q1:2019), we convert this to 2022 dollars to give an input variable of -$3,997. This implies that an individual would need to receive $3,997 to live for a year in a house that is sometimes cold.

Assuming some tenants managed by RPMs are currently living in houses that are sometimes cold, the regulations are expected to reduce this number.[41] Some welfare for this portion of the market is no longer impacted (or more accurately, no longer 'needing' to be compensated). We assume the reduction in negative welfare impacts is gradual, and is realised over time from 2026/27 (a year after regulations are enforced), falling eventually by 0.05 per cent.[42] For simplicity this reduction is applied across the entire tenant market managed by an RPM.

**Reduction in discrimination**

Where RPMs behaviour is improved, and tenants are treated with more respect there is also an avoided cost in reduced discrimination related harms.

The Kōtātā Insight analysis notes the low range equivalent surplus for 'victim of discrimination' at -$5,517 (Q1:2019), we convert this to 2022 dollars to give an input variable of -$6,140. This implies that an individual would need to receive $6,140 to be rendered willing to be a victim of discrimination.

Assuming some tenants managed by RPMs are currently subjected to some discrimination or similar insensitive behaviour by the actions or behaviours of RPMs, the regulations are expected to reduce this number.[43] Some welfare for this portion of the market is no longer impacted (or more accurately, 'needing' to be compensated). We assume the reduction in negative welfare impact is gradual and is realised over time from 2026/27 (a year after regulations are enforced), falling eventually by 0.05 per cent.[44] For simplicity this reduction is applied across the entire tenant market managed by an RPM.

41 We see evidence of his for the entire rental market (as above footnote), however note that the prevalence of cold living conditions across the residential property market that is managed by RPMs as a whole is unknown. We also note that improvements to housing conditions are regulated under the RTA, and other legislation such as Healthy Homes, and changes to conditions are influenced by other actions including property owner decisions about the property. (The Spinoff ar icle on the above footnote illustrates this) – we need to be cautious about causality. Already Healthy Homes has had an impact on heating compliance levels (as evidenced in Healthy Homes Guarantee Act monitoring). As explained in the text we are also cautious in our application of wellbeing surplus figures. For all of these reasons we have chosen to be cautious in our estimates here.

42 As above. Benefits to tenants are sense checked on our understanding of occupational regulation benefit flows – it would be unreasonable to expect the majority of benefits to accrue to tenants when there is limited to no cost to them as a result of the regula ions, and where property owners are the main recipients and users of RPM services. We are wary of causality, and technical application of surplus measures.

43 We note that discrimination of tenants, or potential tenants exists across the rental property market. Case studies highlighted in *A Decade Overdue: The need for regulation of property management in New Zealand (2018), and* ASRUPeoplesReviewofRentingWebversion.pdf (rentersunited.org.nz), show this. Specific examples in the media also include (harassment and poor conduct examples) When home is hell: Tenant who twice battled and won against property managers pleads for regulation | Stuff.co.nz, (discrimination examples) Landlords must pay blind woman $4000 after breaching Human Rights Act | Stuff.co.nz, Property manager slammed for discriminatory advice - NZ Herald and Landlords denying Māori rental properties: 'There's a lot of discrimination' | RNZ News. However, it must be noted that while discrimination certainly exists the exact prevalence of this under property managers is unknown. Discrimination could also be felt most by those who are already excluded from the RPM tenancy market. We also note that discrimination is already illegal under the Privacy Act and the Human Rights Act. These reasons make us conscious of causality in quantifying benefits here.

44 As above. Benefits to tenants are sense checked on our understanding of occupational regulation benefit flows – it would be unreasonable to expect the majority of benefits to accrue to tenants when there is limited to no cost to them as a result of the regula ions, and where property owners are the main recipients and users of RPM services. We are wary of causality, and technical application of surplus measures.