



# Regulatory Impact Statement: Residential Tenancies Act 1986 amendments to introduce pet bonds and address other pet related matters

## Coversheet

### Purpose of Document

Decision sought:	This analysis is undertaken for the purpose of informing Cabinet decisions on amending the Residential Tenancies Act 1986 (RTA) to: <ul style="list-style-type: none"><li>a. provide for a pet bond regime;</li><li>b. provide a tenant is liable for the costs of all pet-related damage beyond fair wear and tear in a rental property and;</li><li>c. clarify a tenant's right to have a pet in a rental property.</li></ul>
Advising agencies:	Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development
Proposing Ministers:	Hon Chris Bishop Minister of Housing
Date finalised:	21 February 2024

### Problem Definition

Landlords are concerned if they accept tenants with pets and the pets cause damage to their rental properties, they will face difficulties recovering the damage costs from tenants. Consequently, some landlords are reluctant to accept tenants with pets, and tenants with pets have less rental accommodation choice.

Landlords are also concerned about the current lack of clarity related to the enforceability of 'no pet' clauses in tenancy agreements and tenants are unsure of their rights to keep a pet.

### Executive Summary

For many tenants, having a pet is important for companionship and contributes to a sense of feeling at home in their rental property. However, many tenants cannot find 'pet friendly' rentals. This is in large part due to landlords' reluctance to accept pets due to the perceived and actual damage pets can cause to rental properties. Some may decline pets due to the suitability of the rental property and other concerns, such as noise or impact on the neighbourhood. Landlord concerns about pet damage is exacerbated by the damage liability rules, which limit tenants' liability to four weeks' rent or the applicable insurance excess. Landlords can only require up to four weeks' rent in bond to recover outstanding costs owed

by tenants, such as rent arrears and damage (including pet damage). No additional bond can be required above this amount specifically for pet damage.

Additionally, the rules about whether tenants can have pets in rental properties are currently unclear. Recent Tenancy Tribunal decisions have found blanket 'no pet' clauses in tenancy agreements may not be enforceable. This is because such clauses may breach a tenant's right to quiet enjoyment, depending on the particular facts. Landlords have expressed concerns about this lack of certainty, because they feel they have less control over their rental properties and ability to limit the risk of pet damage.

Three options (not including the status quo) were considered to address landlord concerns about pet damage costs. The preferred option is to amend the RTA to introduce a two-week pet bond to cover pet damage and change the damage liability rules to make tenants liable for all pet damage beyond fair wear and tear.

The introduction of a two-week pet bond would allow landlords a reserved sum of money from which to recover potential pet damage costs and therefore provide assurance they would not need to cover pet damage costs for which the tenant should be liable. A further barrier to landlords taking on tenants with pets would be removed by the change to damage liability rules. Tenants would benefit from an increased choice of rental properties and the ability to have their pets live with them.

Introducing a pet bond is likely to be supported by landlords and tenants, though we note for lower income tenants (e.g. beneficiaries and pensioners) it may be a struggle to pay the additional upfront cost of a pet bond. This option would have set up and on-going administration costs for the Ministry of Business, Innovation and Employment (MBIE), but efficiencies would be gained by integration with the current bond system.

Two options (not including the status quo) were considered for the clear and effective regulation of pets in rental properties. The preferred option is to amend the RTA to provide tenants may only have a pet with the consent of the landlord, who may only refuse pets on reasonable grounds. A non-exclusive list of refusal grounds would be prescribed, such as the property was unsuitable for a pet (e.g. due to the size of the property or insufficient fencing), or the pet is unsuitable for the rental property (e.g. due to the size/type of animal) or the tenant has not agreed to the reasonable conditions proposed by the landlord as part of the consent.

Providing that landlords may only refuse pet requests on reasonable grounds best balances the interests of landlords in protecting their properties with the benefits to tenants of keeping pets. The establishment of clear parameters for appropriate conditions and grounds for refusing a specific pet, or a particular category of pet/s, would provide guidance for both landlords and tenants, and reduce the risk of disputes arising. If disputes arose, parties could apply to the Tenancy Tribunal for resolution.

Tenants are likely to be supportive of this option as it means individual circumstances can be taken into account (landlords will not be able to have blanket 'no pets' clauses in tenancy agreements). While landlords may be less supportive of this option, their concerns about pet damage can be mitigated by the implementation of the pet bond system and change to the damage liability rules, as above. We consider the additional compliance costs for tenancy parties are outweighed by the benefits.

[SENSITIVE]

## Limitations and Constraints on Analysis

The options are constrained by the commitment in the Coalition Agreement between the New Zealand National Party and ACT New Zealand to ‘introduce “pet bonds” to make it easier for tenants to have pets in rental properties.’

Limited time and the constrained scope meant there are areas of analysis which could have been strengthened through the QA process. For example, we have not assessed the options of introducing a pet bond only (with no changes to the damage liability rules for pets) or setting the pet bond at one week’s rent.

We do not have accurate data on the average costs of pet damage in rental properties and have used pet damage costs ordered in Tenancy Tribunal decisions as a proxy. However, relatively few Tenancy Tribunal orders deal with disputes about pet damage.

It is probable that many pet damage claims are resolved in mediation and therefore do not progress to the Tenancy Tribunal for adjudication. It is likely that for many tenancies involving pets where pet damage has occurred, damage costs are resolved amicably between the landlord and tenant. Where all or some of a tenant’s bond money is paid to landlords with the agreement of tenants, MBIE does not have visibility over what costs the payment covers (e.g. it could be for rent arrears, cleaning costs, or damage costs). It is also possible that landlords are meeting pet damage costs themselves without pursuing tenants for those costs.

In the time available, we have not been able to:

- survey a comprehensive sample of landlord insurance policies to determine the proportion of policies which cover pet damage insurance
- undertake modelling as to how many landlords might rent their properties to tenants with pets and how many pet bonds might be collected by MBIE if the pet bond facility was implemented and
- undertake a full cost-benefit analysis of the quantifiable financial costs versus the financial and non-financial benefits to the sector of implementing a pet bond facility.

Due to time constraints the options subject to this analysis have not been the subject of consultation with the sector and stakeholder groups. Where relevant, we have referred to the themes in submissions on the Reform of the Residential Tenancies Act consultation in 2018.

## Responsible Manager



Claire Leadbetter  
Manager Tenancy and Tenures Policy and Legislation Design  
Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development

[SENSITIVE]

**Quality Assurance (completed by QA panel)**

Reviewing Agency:	Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development Regulatory Impact Assessment panel
Panel Assessment & Comment:	<p>The Regulatory Impact Analysis Panel at Te Tūāpapa Kura Kāinga has reviewed the Regulatory Impact Statement (RIS), <i>‘Residential Tenancies Act 1986 amendments to introduce pet bonds and address other pet related matters’</i> prepared by the Tenancy and Tenures Policy team and confirmed that it meets RIS requirements.</p> <p>The panel noted that the analysis has substantial prior consultation and engagement, from previous reform to this Act. This informs the analysis but further consultation at other stages of these changes will be required to validate stakeholder views.</p> <p>The ‘Limitations and Constraints on Analysis’ section is candid about the limitations and assumptions of the RIS. This indicates to the panel that, were time available, some probing of these assumptions could reveal alternative options to enable pets in rental properties.</p>

## Section 1: Diagnosing the policy problem

### What is the context behind the policy problem and how is the status quo expected to develop?

*Many tenants have or would like pets, but cannot find rental properties for which landlords or property managers accept pets*

1. It is difficult to estimate how many tenants own pets. The *Companion Animals in New Zealand 2020 Report* estimates that 64 percent of households in New Zealand have at least one companion animal.<sup>1</sup> Given the estimated 600,000 + renting households in New Zealand,<sup>2</sup> this proportion indicates there is a large cohort of tenants who have or want a pet, and therefore need a 'pet-friendly' rental.
2. However, tenants with pets often struggle to find rental properties where pets are accepted. For example in the 2018 consultation on the Reform of the Residential Tenancies Act, a high number of tenants submitted they experienced difficulties finding accommodation with pets, particularly those with dogs. The reasons given for wanting to keep pets included the close attachment between the pet and the owner or family and the emotional benefits of pet ownership.
3. Barfoot & Thompson, which manages more than 19,000 rental properties across Auckland, estimated in January 2023 that just 14.8 percent of their properties allow pets.<sup>3</sup> The online landlord platform 'myRent' estimated in 2021 that only 13 percent of landlords allow pets in rental properties.<sup>4</sup>

*Landlords can require tenants to pay up to four weeks' rent as bond*

4. Currently, landlords can require a tenant to pay up to four weeks' rent as bond (section 18 of the RTA).<sup>5</sup> The bond can be called upon by landlords to recover outstanding money owed by the tenant, such as rent arrears, damages (including pet damage), or cleaning costs. No additional bond can be required above this amount specifically for pet damage. Ministry of Business, Innovation and Employment (MBIE) bond data shows the vast majority of landlords charge the maximum bond of four weeks' rent.

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<sup>1</sup> Companion Animals NZ, *Companion Animals in New Zealand 2020 Report* (9 October 2020) <<https://www.companionanimals.nz/2020-report>>

<sup>2</sup> Stats NZ Infoshare <<https://infoshare.stats.govt.nz/>> ("Population" / Demography Dwelling and Household Estimates – DDE / Estimated Households in Occupied Dwellings, As At Quarter Ended (Qrtly-Mar/Jun/Sep/Dec) ).

<sup>3</sup> Barfoot & Thompson, *Pet Friendly Rentals: An Analysis* (January 2023) <<https://www.barfoot.co.nz/news/2023/january/pet-friendly-rental-properties>>.

<sup>4</sup> myRent, *Tenants with pets – to let or not to let* (7 August 2021). <<https://www.myrent.co.nz/tenants-with-pets>>.

*While the current bond appears sufficient to cover typical pet damage costs, the actual and perceived risk of damage can be higher*

5. In the year ending 31 October 2023, the median pet damage costs awarded in Tenancy Tribunal orders was \$402.50.<sup>6</sup> As four weeks' average rent is \$2,320,<sup>7</sup> this amount indicates the existing maximum amount of bond that is able to be collected as security will, in most cases, cover foreseeable pet damage.
6. However, some Tenancy Tribunal cases involving pet damage costs are significantly higher than the median and landlords may be concerned about this risk. Also, some adjudicators find tenants not liable for one-off pet damage events as being 'accidental' (i.e. they are not considered 'careless damage'). Landlords have also raised concerns about their ability to collect costs from tenants even if liability has been established at the Tribunal. They express concern that where a tenant has a low income or are not willing to pay, that the time to chase up payments of a low amount over a period of years may not be worth the time and trouble to establish the debt.

*The Tenancy Tribunal has been finding some 'no pet' clauses unenforceable*

7. For non-boarding house tenancies, the RTA is silent on the issue of tenants keeping pets in rental properties.<sup>8</sup> It is common practice for landlords to include 'no pet' clauses in tenancy agreements, to disallow pets in their rental properties. The sector has been operating on the understanding these clauses are enforceable. For example, a landlord can ask a tenant to remove the pet by issuing a 14-day notice to remedy if the tenant was found to be keeping a pet contrary to a 'no pets' clause in their tenancy agreement.
8. Recently, some Tenancy Tribunal adjudicators have found that blanket clauses in tenancy agreements banning pets ('no pet' clauses) may be unenforceable under section 11 of the RTA (section 11 provides clauses in a tenancy agreement which are inconsistent with the Act are generally not enforceable).<sup>9</sup> This is because such clauses may breach a tenant's right to quiet enjoyment, depending on the particular facts.
9. If the risk from a pet is low, some Tenancy Tribunal adjudicators argue there is a strong argument that a blanket 'no pets' policy is likely to breach a tenant's right to quiet enjoyment and should not be permitted under section 11. If the risk is high, then the restriction is likely to be permissible. Relevant factors in coming to a decision include the size and type of animal, whether it has caused damage or disruption in the past, and whether it is house-trained ('the difference between a goldfish in a bowl and a rottweiler in an apartment').

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<sup>6</sup> In 2019 the average amount awarded by the Tenancy Tribunal for pet damage costs was \$400, based on a similar number of Tribunal orders, indicating almost no increase in average pet damage costs awarded at the Tribunal in over four years.

<sup>7</sup> This is four times the average rent for December 2023, i.e. \$580 (Tenancy Services Bond Data).

<sup>8</sup> The RTA prohibits boarding house tenants from keeping a pet on the premises without the permission of the landlord (RTA, s 66K(2)(g)).

<sup>9</sup> There have been ten Tenancy Tribunal decisions between 1 January 2023 – 20 October 2023 in which section 11 was applied in respect of tenants keeping pets. Section 11 of the RTA provides clauses in a tenancy agreement which are inconsistent with the Act are generally not enforceable.

10. There have been a far greater number of Tribunal orders in which adjudicators are either silent on the enforceability of 'no pets' clauses or enforce the clauses. In some cases, the Tenancy Tribunal has enforced clauses requiring professional cleaning in return for keeping pets. However, it is not clear whether a landlord can legally enforce a requirement for the tenant to have carpet professionally cleaned due to pet damage.

### What is the policy problem or opportunity?

*There are benefits of having a pet, but a lack of rental accommodation choice for tenants with pets*

11. In tight rental markets it is difficult for tenants to find 'pet-friendly' rentals. This is particularly the case for tenants with dogs. We have heard for renters experiencing family violence the prospect of having to leave pets behind due to a lack of rental choice is a barrier to escaping their unsafe situations.
12. According to the *Companion Animals in New Zealand 2020* report, over half of people who do not have companion animals would like to get one, which is around 375,000 households. The main barriers to this group having companion animals are their home or lifestyle not being suitable (37 percent), the landlord or property where people live not allowing animals (33 percent), cost (32 percent), and responsibility (26 percent).<sup>10</sup>
13. Pets can have positive impacts on wellbeing and mental health, as people consider their pets part of the family. Allowing tenants to have pets in their homes provides a sense of comfort and security, on a par with homeowners. Tenants may be more willing to pay more for 'pet-friendly' rentals and permitting tenants to keep pets encourages longer term tenancies and less vacancies in rental properties.<sup>11</sup>

*Risk of pet damage costs is a barrier to landlords accepting tenants with pets*

14. A key factor in landlord reluctance to take on pets is the perceived or actual risk of pet damage to their rental properties which is not covered by the current bond amount. We have also heard from landlords the current damage liability rules in the RTA mean a tenant is not liable for the costs of some instances of pet damage. Currently, in relation to any damage, tenants are:
  - a. not liable for fair wear and tear to the premises<sup>12</sup>
  - b. liable for careless damage for up to four weeks' rent or the applicable insurance premium, whichever is lower, and
  - c. fully liable for intentional damage.
15. Landlords have raised concerns that tenants may sometimes be found not liable for soiled carpets or scratched carpets and doors based on the current damage liability

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<sup>10</sup> Companion Animals NZ, *Companion Animals in New Zealand 2020*, p32 <<https://www.companionanimals.nz/2020-report>>

<sup>11</sup> See above n3. Barfoot and Thompson state that Auckland rental properties that allow pets fetch an average of 11.3% more in rent per week than those which don't. <<https://www.barfoot.co.nz/news/2023/january/pet-friendly-rental-properties>>

<sup>12</sup> The Tenancy Tribunal has described 'fair wear' as "deterioration caused by the reasonable use of the premises" and 'fair tear as the 'deterioration caused by the ordinary operation of the forces of nature.'

rules. During the 2018 consultation on the Reform of the Residential Tenancies Act, landlords submitted a key disincentive to taking on tenants with pets was the damage liability rules in the RTA.

16. Sometimes, pet damage is considered ‘accidental’ (and the Tenancy Tribunal finds a tenant is not liable for it), or there is no applicable insurance coverage, and the damage costs exceed four weeks’ rent. While some landlord insurance policies cover the risk of pet damage, we understand others expressly exclude pet damage.<sup>13</sup>
17. The lack of clarity in relation to landlords being able to require tenants to have properties professionally cleaned to remedy pet damage (or meet the cost of which) may also be contributing to a reluctance by landlords to take on tenants with pets.

*Lack of clarity about the enforceability of ‘no pet’ clauses in tenancy agreements and tenants’ rights to have pets in rental properties*

18. Landlords have expressed concerns about the lack of certainty about being able to enforce ‘no pet’ clauses in tenancy agreements because they feel they have less control over their rental properties and ability to limit the risk of damage. At the same time, tenants are not certain of their rights to have a pet if they would like to request having a pet at the rental property.
19. At the margins, the uncertainty may be contributing to landlords increasing rents to address the perceived risk of possible pet damage. Some landlords may even consider not renting out their properties at all if they feel they do not have the contractual freedom to impose a ‘no pet’ restriction on tenants.
20. On the other hand, for many tenants, having a pet is important for companionship and contributes to a sense of feeling at home in their rental property. Currently tenants who have pets or wish to have a pet face limited choice in the number of rental properties available or uncertainty if they have to move to another rental property. While recent Tenancy Tribunal decisions do not provide clarity as to their legal rights to have pets, tenants may view the approach in some decisions as more fair and balanced, where adjudicators have taken into account relevant factors.
21. During the 2018 consultation on the Reform of the Residential Tenancies Act, the topic of pets attracted particularly high levels of interest. A substantial majority of landlords thought decisions relating to allowing pets should be at the landlord’s discretion and they should be able to decline pet requests with no reasons given. A high proportion of tenants disagreed, believing pet ownership should not be a privilege reserved for homeowners.

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<sup>13</sup> There are a range of landlord insurance policies in the market: some insurers expressly exclude pet damage, some cover pet damage in limited situations, and some do not exclude pet damage. Commonly, insurers will cover accidental or sudden or accidental damage caused by a pet, but exclude damage caused gradually or over time, for example, damage caused to a sofa by a cat scratching the fabric multiple times over a year.



### **What objectives are sought in relation to the policy problem?**

22. The objective of the first set of proposals ('A') is to remove one of the key barriers to landlords renting properties to tenants with pets by addressing the risk of pet damage costs, thereby making it easier for tenants to have pets in rental properties.
23. The objective of the second set of proposals ('B'), to amend the law regarding tenants keeping pets, is to provide for clear and effective regulation of pets in rental properties.

## Section 2: Deciding upon options to address the policy problems

### What criteria will be used to compare options to the status quo?

24. Options for both proposals are assessed against the following criteria:
- a. **Effectiveness:** will the option:
    - i. Sufficiently address the risk to landlords of pet damage to their rental properties and increase landlords' confidence in recovering pet damage costs?
    - ii. Result in more rental accommodation choice for tenants with pets? Will it allow tenants to feel more at home in their rental properties, by allowing them to keep their pets?
  - b. **Proportionality:** is the regulatory cost of the option proportionate to the benefits identified? Does the proposal achieve the intended outcomes for the lowest cost burden on the parties, regulator and courts?
  - c. **Certainty:** Will the option provide regulated parties with certainty over their legal rights and obligations and promote a regulatory regime that provides predictability over time?
  - d. **Fairness:** Is the option fair and reasonable in the way it treats regulated parties? Does it appropriately balance the interests of a landlord in protecting their property against damage with the benefits to a tenant of keeping a pet in their home?

### What scope will options be considered within?

25. The options are considered in the context of the Coalition Agreement between the New Zealand National Party and ACT New Zealand, which includes a commitment to 'introduce "pet bonds" to make it easier for tenants to have pets in rental properties.'
26. Non-regulatory options are not considered sufficient to address the issues and have not been proposed or assessed.
27. We have considered the approaches to pets in rental properties in the following overseas jurisdictions: Australia, UK, and Canada.

### A. Options to remove barriers from landlords renting properties to tenants with pets

#### Option A1 - *Status Quo*

28. Under the status quo, landlords would continue to recoup pet damage costs through recourse to the current bond, if agreed with a tenant at the end of a tenancy or through a Tenancy Tribunal order. Tenant liability for pet damage over fair wear and tear would

be capped for tenants at four weeks' rent or the applicable insurance excess (unless considered intentional damage).<sup>14</sup>

#### *Analysis (A1)*

29. This amount will, in most cases, cover foreseeable pet damage.<sup>15</sup> However, where pet damage costs are 'accidental' or not covered by insurance and more than four weeks' rent, landlords will need to cover these costs. For landlords with insurance policies which exclude pet damage, they will need to meet any shortfall if pet damage costs exceed four weeks' rent.
30. Landlords will continue to be concerned about the actual and perceived risk of pet damage. Many landlords and property managers will continue to have blanket policies banning pets across rental portfolios and there will continue to be a lack of choice of rental properties for tenants with pets.

#### ***Option A2 – Introduce a pet bond to cover pet damage and change the liability rules for pet damage***

31. Under this option, the RTA would be amended to make tenants liable for pet damage beyond fair wear and tear, regardless of the amount of the damage or whether the landlord held insurance for the damage. Most pet damage would then be captured by the new damage liability rules, as the Tenancy Tribunal generally finds damage caused by pets to be beyond fair wear and tear.
32. To support a landlord's ability to recover pet damage costs, under this option a pet bond tool would be introduced to address the risk of a landlord being left with pet damage costs at the end of a tenancy. The pet bond would be set at a level linked to weekly rent in the same way as the general bond, which means it would change relative to rent movements.
33. The pet bond would not be set at a level to fully cover all possible (extreme) risks of pet damage costs. This is the same for the general bond, which is set at a level which allows landlords to recover certain costs (e.g. damage costs and rent arrears) in the majority of instances.<sup>16</sup> Most tenancy bonds are refunded in full to tenants at the end of the tenancy, due to there being no outstanding costs owed to the landlord.
34. The pet bond tool would be designed to be as consistent with the general bond tool as much as possible, to ensure it is straightforward to implement and administer and easy to understand. The amendments would include unlawful acts and infringement offences

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<sup>14</sup> Tenants are liable for careless damage caused by an act or omission, capped at the level of their landlord's insurance excess (if insurance covers the damage) or at four weeks' rent, whichever is less.

<sup>15</sup> Pet damage costs awarded to landlords by the Tenancy Tribunal over the current bond limit are uncommon. The median net costs awarded to landlords in cases involving pet damage in the year to October 2023 was \$2,200 (i.e. pet damage costs plus other costs awarded to landlords), which is less than four weeks of median rent (\$2310) calculated using the current median rent (4 x \$580).

<sup>16</sup> For example, using the current median rent to calculate an average bond, \$2310, this amount would cover 48 percent of cost awards to landlords in the last 102 Tenancy Tribunal orders in which net costs awards to landlords were greater than \$0.

in relation to pet bonds which are aligned with those relating to the current bond provisions and obligations in the RTA.

### **Option A2(i) – pet bond set at two weeks’ rent**

35. Under option A2(i), the pet bond would be set at two weeks’ rent.

#### *Analysis of A2(i)*

36. This amount is likely to be more than most pet damage claims. Two weeks’ worth of the average national weekly rent is \$1160,<sup>17</sup> which is nearly 2.9 times the median pet damage costs awarded by the Tenancy Tribunal in recent decisions (i.e. \$402.50).<sup>18</sup> Therefore, this amount would address both the actual and perceived risk landlords have about potential pet damage to their properties and, at the margins, encourage more landlords to take on tenants with pets. Making tenants liable for pet damage costs over wear and tear would increase the amount of pet damage costs a landlord could claim from tenants in some instances (i.e. the average costs awarded by the Tribunal is likely to be marginally more than \$402.50). Landlords would be able to pursue tenants for pet damage costs beyond the pet bond amount, in those instances.
37. Landlords are likely to support this proposal, as it would shift more responsibility for pet damage onto tenants who want to have pets and encourage them to take additional care. It may encourage landlords to accept tenants with pets, by addressing the risk of excessive costs related to pet damage beyond the current liability cap, which might otherwise have to be met by landlords.
38. In the 2018 Reform of the Residential Tenancies Act consultation, landlords expressed concerns about the damage that pets can do to rental properties, the costs of remedying this damage, and whether tenants will be held liable. They supported introducing a pet bond.
39. Many tenants with pets would be supportive of the proposal, as they would be willing to pay an additional cost and take on more responsibility for damage in return for more rental accommodation choice. Others may think a pet bond is unnecessary, given most pet damage costs awarded by the Tenancy Tribunal are within the current bond amount.
40. Tenants would also face increased liability for pet damage beyond fair wear and tear. In most instances this would not materially impact tenants as the amount of damage awarded for pet damage is generally less than the liability cap of four weeks’ rent that currently applies. However, where damage exceeds the four-week cap, liability will shift from the landlord onto the tenant. Tenants may need to consider whether and in what circumstances their insurance policies cover pet damage, to cover the risk of liability for pet damage costs above wear and tear.
41. Tenants in higher income brackets are likely to benefit from the option more than those in lower income brackets, as they are more likely to be able to afford the additional cost

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<sup>17</sup> The median rent for December 2023 was \$580 (Tenancy Services Bonds Data).

<sup>18</sup> Using the average rent for December 2023, a two-week pet bond would expect to cover around 62 percent of all pet damage awards by the Tribunal (noting the Tribunal awards are a small sample size). This proportion of pet damage awards is higher than the proportion of net cost awards in favour of landlords covered by the general bond (from a sample of around 100 Tenancy Tribunal orders). See n16 above.

of a pet bond. There is a risk that lower income families, beneficiaries, and pensioners will not be able to afford a pet bond. Many people in these groups already struggle to pay the general bond and two weeks' rent in advance prior to moving into a rental property. Due to the tight rental market, landlords are likely to require the maximum pet bond, as tenants generally will not be able to negotiate a lower bond amount.

42. s 9(2)(f)(iv)

### **Option A2(ii) – pet bond set at three weeks' rent**

43. Under option A2(ii), the pet bond would be set at three weeks' rent.

#### *Analysis of A2(ii)*

44. Three weeks' worth of the average national weekly rent is \$1,740, which is 4.32 times the median pet damage costs awarded by the Tenancy Tribunal in recent decisions (i.e. \$402.50).<sup>19</sup>
45. Setting the pet deposit at three weeks' rent means landlords would be able to charge tenants seven weeks' worth of rent in bond before moving into a rental property (four weeks for general bond plus three weeks' pet bond), amounting in most cases to thousands of dollars and beyond the means of many tenants. Tenants also usually have to pay two weeks' rent in advance before moving into a rental property. It would also be disproportionate to the median amount of pet damage costs awarded by the Tenancy Tribunal.
46. For the reasons above, some landlords and tenants may be supportive of this option: for landlords it gives an additional week's rent in pet bond as even more protection against pet damage risk, and for tenants with pets who can afford it, more rental choice.
47. However, tenants may be less supportive of option A2(ii) than A2(i), as three weeks' rent is a high upfront cost for tenants and disproportionate in most instances to the typical amount of pet damage costs. As for option A2(i), tenants may need to consider whether and in what circumstances their insurance policies pet damage, to cover the risk of liability for pet damage costs above wear and tear.
48. Also as with option A2(i), tenants in lower income brackets would be even less likely to be able to afford the additional cost of a pet bond. Option A2(ii) is therefore more unfair than option A2(i) for lower income households, beneficiaries, and pensioners who already struggle to pay the significant upfront costs of moving into a rental property (i.e. the general bond and two weeks' rent). As above, due to the tight rental market, landlords are likely to require the maximum pet bond, as tenants generally will not be able to negotiate a lower bond amount.

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<sup>19</sup> Using the current average rent, a three-week pet bond would expect to cover around 76 percent of all pet damage awards by the Tribunal searching on the word 'pet' (noting the Tribunal awards are a small sample size). This proportion of pet damage awards is a lot higher than the proportion of net cost awards in favour of landlords covered by the general bond (from a sample of around 100 Tenancy Tribunal orders).

### **Option A3 – *Change damage liability rules***

49. Option A3 is the same as options A2(i) and A2(ii), without the introduction of a pet bond. Accordingly, under option A3, the RTA would be amended to make tenants liable for pet damage over fair wear and tear, regardless of the amount of the damage or whether the landlord held insurance for the damage.

#### *Analysis (A3)*

50. While tenants may be more supportive of this option due to not having to pay additional upfront costs, landlords would be likely to be less supportive or to prefer it as a package with A2 above. This is because while it would shift more pet damage liability onto tenants, it would not reduce the work required to recover pet damage costs (by allowing landlords the additional bond money from which they could more easily recover costs). However, given most average pet damage claims are covered by the average bond, it is a fairer option for lower income tenants, who would struggle to pay a pet bond.

## A. Analysis of options to remove barriers from landlords renting properties to tenants with pets

	<b>Option A1 Status Quo</b>	<b>Option A2(i) – Introduce a 2-week pet bond to cover pet damage and change liability rules for pet damage</b>	<b>Option A2(ii) – Introduce a 3-week pet bond to cover pet damage and change liability rules for pet damage</b>	<b>Option A3 – Change liability rules for pet damage</b>
<b>Effectiveness</b>	<p>0 – Not effective. Landlords will continue to be reluctant to take on tenants with pets or agree to pets in their rental properties, and may insert ‘no pet’ clauses in tenancy agreements as a matter of course.</p> <p>Landlords will continue to have a shortfall for extreme pet damage costs in some instances, for example where damage is deemed ‘accidental’ and insurance does not cover the damage.</p> <p>Tenants with pets will continue to have a lack of rental accommodation choice.</p>	<p><b>++</b></p> <p>Landlords would feel more assured the risk of damage to their properties is addressed due to a shift in damage liability to tenants, access to bond money if needed.</p> <p>Therefore, more landlords likely to take on pets and tenants with pets would have more rental choice.</p> <p>Not as effective for lower income renting households (including beneficiaries and pensioners) who would be disproportionately impacted as the additional upfront cost of two weeks’ rent (on top of two weeks’ rent in advance and four weeks’ general bond) would be unaffordable.</p> <p>Tenants may need to consider whether and in what circumstances their insurance policies pet damage, to cover the</p>	<p>0</p> <p>Landlords would feel more comforted the risk of damage to their properties is addressed due to a shift in damage liability to tenants, access to bond money if needed.</p> <p>More landlords likely to take on pets and tenants with pets would have more rental choice.</p> <p>However, even less effective for lower income renting households (including beneficiaries and pensioners) who would be disproportionately impacted as the additional upfront cost of two weeks’ rent (on top of two weeks’ rent in advance and four weeks’ general bond) would be unaffordable.</p> <p>Tenants may need to consider whether and in what circumstances their insurance policies pet damage, to cover the risk of liability for pet damage costs above wear and tear.</p>	<p><b>+</b></p> <p>Landlords would feel more assured the risk of damage to their properties is addressed due to a shift in damage liability to tenants. However, amount of existing bond may not cover potential damage.</p> <p>Tenants would not have to face additional upfront costs of pet bond but may have to consider possible insurance for pet damage.</p> <p>While some landlords likely to take on pets (giving tenants with pets more rental choice), others may continue to perceive the current bond level (without the additional pet bond) as inadequate in terms of the risk.</p>

		risk of liability for pet damage costs above wear and tear.		
<b>Proportionality</b>	0 – Status quo does not impose any regulatory costs but leads to issues above.	<p>-</p> <p>MBIE costs associated with:</p> <ul style="list-style-type: none"> <li>- design and implementation of pet bond scheme s 9(2)(f) (iv)</li> <li>- administration of scheme by Tenancy Bond team, including lodging/refunding pet bonds</li> <li>- (initial) increased calls to the service centre</li> <li>- (initial) publicity changes</li> <li>- increased applications to the Tenancy Tribunal.</li> </ul> <p>s 9(2)(g) (i)</p> <p>Compliance costs for landlords and tenants for pet bond</p>	<p>-</p> <p>MBIE costs associated with:</p> <ul style="list-style-type: none"> <li>- design and implementation of pet bond scheme s 9(2)(f)(iv)</li> <li>- administration of scheme by Tenancy Bond team, including lodging/refunding pet bonds</li> <li>- (initial) increased calls to the service centre</li> <li>- (initial) publicity changes</li> <li>- increased applications to the Tenancy Tribunal.</li> </ul> <p>s 9(2)(g)(i)</p> <p>Compliance costs for landlords and tenants for pet bond administration requirements at start and end of tenancies.</p>	<p>0</p> <p>Does not impose significant new regulatory costs.</p> <p>No major implementation costs for regulator.</p> <p>Existing bond provisions will usually be sufficient to cover pet damage in most cases.</p> <p>Tenants would face additional costs of insurance for pets, or increased costs of pet damage, if not insured.</p>



		<p>administration requirements at start and end of tenancies.</p> <p>Existing bond provisions will usually be sufficient to cover pet damage in most cases, although there may be some situations at the extreme end of pet damage costs where existing bond amount is insufficient to cover costs.</p> <p>Cases to Tenancy Services may increase in relation to pet bond and pet damage disputes.</p> <p>Tenants may face additional costs of insurance for pets, or increased costs of pet damage, if not insured.</p>	<p>Existing bond provisions will usually be sufficient to cover pet damage in most cases. A three week pet bond is disproportionate to the typical amount of funds needed to cover pet damage.</p> <p>Holding additional funds over and above the existing bond as security when it is unlikely to be needed would result in a deadweight loss in the economy, and tenants would miss out on the opportunity cost of access to those funds.</p> <p>Cases to Tenancy Services may increase in relation to pet bond and pet damage disputes.</p> <p>Tenants may face additional costs of insurance for pets, or increased costs of pet damage, if not insured.</p>	
<b>Certainty</b>	<p>0</p> <p>Low certainty.</p>	<p>+</p> <p>Change of damage liability rules for pet damage and pet bond requirement may take time to 'bed in' for the sector at first, but new rules would become understood and predictable over time.</p>	<p>+</p> <p>Change of damage liability rules for pet damage and pet bond requirement may take time to 'bed in' for the sector at first, but new rules would become understood and predictable over time.</p>	<p>+</p> <p>Change of damage liability rules for pet damage may take time to 'bed in' for the sector at first, but new rules would become understood and predictable over time.</p>
<b>Fairness</b>	<p>0</p> <p>Unfair for landlords who have to chase tenants for the cost of pet damage which is in excess of</p>	<p>+</p> <p>Fairer to landlords due to change to damage liability rules, ability to</p>	<p>0</p> <p>Fairer to landlords due to change to damage liability rules, ability to</p>	<p>+</p> <p>Fairer for tenants as they would not have to face additional upfront costs</p>

	<p>current bond, or the costs owed to the landlord by tenant including pet damage are in excess of current bond.</p> <p>Also unfair for landlords who have to meet the cost of 'accidental' or careless pet damage costs which is over four weeks' rent and not covered by landlord's insurance.</p> <p>Fair for tenants with pets which do not cause damage, or do not cause excessive damage to rental properties.</p> <p>Not fair to tenants who have less rental choice and would be prepared to offer an additional bond for a rental property in return for keeping a pet but current regime doesn't allow.</p>	<p>recover pet damage costs from bond.</p> <p>Upfront costs to tenants would increase: Average pet bond amount could be around \$1,160 (based on average rent).</p> <p>Fairer for tenants who have less rental choice and would be prepared to offer an additional bond for a rental property in return for keeping a pet. These tenants would receive wellbeing and mental health benefits.</p> <p>Not as fair for lower income tenants, who will not be able to afford additional upfront costs of pet bond. Tenants may also face increased costs of pet damage and/or insurance for pet damage.</p>	<p>recover pet damage costs from bond.</p> <p>Upfront costs to tenants would increase and be substantial: Average pet bond amount could be around \$1,740 (based on median rent).</p> <p>Fairer for tenants who have less rental choice and would be able and prepared to offer an additional bond for a rental property in return for keeping a pet. These tenants would receive wellbeing and mental health benefits.</p> <p>Even less fair for lower income tenants, who will not be able to afford additional upfront costs of pet bond. Tenants may also face increased costs of pet damage and/or insurance for pet damage.</p>	<p>(particularly low-income households), and current bond covers most instances of pet damage.</p> <p>But tenants may face increased costs of pet damage and/or insurance for pet damage.</p> <p>Change to damage liability rules fairer than status quo for landlords, but landlords would not have benefit of additional bond money to recover pet damage which exceeds current bond level.</p>
<b>Overall assessment</b>	0	3+	1+	3+

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- 0 about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

## Option A2(i) – Introduce a pet bond of two weeks’ rent and change liability rules for pet damage - is most likely to result in more landlords renting properties to tenants with pets

51. Option A2(i) and option 3 are assessed as having the same net benefits. The pet bond option would allow landlords a reserve sum of money from which to recover potential pet damage costs and therefore provide assurance they would not be out of pocket for pet damage costs for which the tenant should be liable. This would particularly come into play where pet damage costs are high (more than four weeks’ rent) and not covered by a landlord’s insurance. Where costs are more than six weeks’ rent (i.e. more than the total bond including pet bond), landlords would still be able to pursue tenants for costs in excess of the bond .
52. While option A3 would not have the benefit of additional bond money for landlords to access in cases of extreme pet damage, pet damage costs appear to be mostly covered by the current bond level, which is fairer to tenants, particularly those on lower incomes. In extreme cases where costs exceed bond, landlords could still pursue cost recovery from tenants, including those related to careless and accidental pet damage due to the change to the damage liability rules.
53. A major benefit of option A3 is it would have much lower implementation, on-going administration, and compliance costs. Conversely, option A2(i) has the disadvantage of significant set up costs, and on-going administration and compliance costs, once integrated into the current bond system.
54. Lower income tenants with pets are less likely to experience the benefits of increased rental choice under option A2(i), as the introduction of a pet bond will be more unaffordable to people in this group, and therefore a barrier to obtaining a rental property for those with pets.
55. However, taking into account the effectiveness criteria, option A2(i) is preferred, as it is more likely to result in an increased number of landlords renting properties to tenants with pets, and therefore create more rental choice for tenants overall.

### What are the marginal costs and benefits of the option?

56. The marginal costs and benefits of the Government’s preferred option to implement a two-week pet bond and change the damage liability rules (option A2(i)) are outlined below:

<b>Affected groups</b>	<b>Comment</b> <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i>	<b>Impact</b> <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i>	<b>Evidence Certainty</b> <i>High, medium, or low, and explain reasoning in comment column.</i>
<b>Additional costs of the preferred option compared to taking no action</b>			
Regulated groups	Landlords, property managers, tenants, and community housing providers will have	Low – medium	Medium – no consultation undertaken with stakeholders.

	<p>increased compliance costs.</p> <p>Tenants who wish to keep a pet will face higher upfront costs of paying pet bonds, and may face increased costs for pet damage and possibly additional costs of insurance for pet damage.</p>		
Regulators	<p>MBIE – development and implementation costs to establish pet bond scheme. Savings in set up and administration costs from integrating pet bonds into current bond system.</p> <p>MBIE - administration of scheme by Tenancy Bond team, including lodging/refunding pet bonds</p> <p>Increased calls to the service centre (initially).</p> <p>MBIE to inform landlords, tenants and others in the sector about the new rules, including updating Tenancy Services website, tools and guidance and through calls from customers to its Service Centre.</p> <p>MBIE Tenancy Compliance and Investigations Team to include pet bonds in its regulatory activity.</p>	<p>Quantifiable: s 9(2)(f)(iv) (initial design and implementation and administration costs)</p> <p>Non-quantifiable: Low - Medium (longer term costs)</p>	<p>Medium s 9(2)(g)(i)</p>
Others (e.g., wider govt, consumers, etc.)	<p>s 9(2)(f)(iv)</p> <p>Lower income tenants (including beneficiaries and pensioners) will be disproportionately impacted by upfront costs of pet bonds.</p> <p>Potential cost to Tenancy Services' mediation services and Tenancy Tribunal where disputes</p>	Medium	<p>s 9(2)(f)(iv)</p> <p>Unknown how many lower income tenants might want pets but not be able to afford pet bond.</p> <p>Unknown how many applications to Tenancy Tribunal relating to pet damage</p>

	<p>about pet damage are raised.</p> <p>Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) cost of monitoring the impact of the changes on the sector.</p> <p>Ministry of Justice (MOJ) – costs implementing changes to Tribunal case management system.</p>		<p>disputes might be lodged.</p> <p>HUD can estimate monitoring costs based on current and previous monitoring of RTA changes.</p> <p>MOJ can estimate costs based on previous system changes.</p>
<b>Total monetised costs</b>	-	s 9(2)(f)(iv)	Medium
<b>Non-monetised costs</b>	-	Low - medium	medium
<b>Additional benefits of the preferred option compared to taking no action</b>			
Regulated groups	<p>Landlords assured properties are protected by tenant liability for pet damage above wear and tear and by being able to recover pet damage costs from additional bond.</p> <p>Tenants with pets have more rental choice. Increased number of tenants able to have pets, with associated mental health and social benefits. Possible increased length of tenure, as people with pets feel more settled and stay longer.</p>	high	Unknown how many landlords would offer provide 'pet-friendly' rentals based on introduction of pet bond and change to damage liability rules for pets.
Regulators	Potentially fewer disputes lodged through Tenancy Services over pet damage.	Low	Low – unknown whether and how much pet bonds would reduce disputes.
Others (eg, wider govt, consumers, etc.) Tenancy Tribunal	Tenancy Tribunal: Possibly fewer disputes being lodged (due to pet bond being available to meet costs), which would reduce caseload.	Low	Low – not many Tribunal cases involve pet damage.
<b>Total monetised benefits</b>	-	-	
<b>Non-monetised benefits</b>	-	Medium	Medium

## B. Options to amend the law regarding tenants keeping pets in rental properties

### Option B1 – *Status quo*

57. Under the status quo, there would continue to be uncertainty for landlords and tenants as to whether ‘no pets’ clauses in tenancy agreements are enforceable for any pets kept in rental properties.

#### *Analysis (B1)*

58. Many landlords and property managers will continue to have blanket policies banning pets across rental portfolios or decline pet requests for reasons outside of legitimate concerns about damage to property, or without consideration of the particular circumstances. At the margins, landlords will be reluctant to keep renting out their properties at all, due to the risk of pet damage.
59. The situation will make it difficult for tenants to fully realise their rights to quiet enjoyment through the benefits of being able to keep their pet. This can undermine tenants’ ability to feel at home in their rental properties. Some tenants will likely continue keeping pets without permission.

### Option B2 – *Provide for the enforceability of ‘no pet’ clauses*

60. Under this option, the RTA would be amended to provide:
- a. For the enforceability by landlords of ‘no pets’ clauses in tenancy agreements and;
  - b. Where a tenancy agreement was silent on a tenant keeping a pet, a tenant could only keep a pet with the prior written agreement of the landlord, who would have to respond within 21 days of the request and could refuse it with no reason provided.
61. Disability assist dogs, as defined in the Dog Control Act 1996, would not be ‘pets’, and therefore be an exception to the rules above.<sup>20</sup>
62. If a tenant obtained a pet contrary to a ‘no pet’ clause or without first obtaining the written consent of the landlord, the landlord would be able to issue a 14-day notice to remedy, failing which the landlord could pursue remedies through the Tenancy Tribunal.

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<sup>20</sup> ‘Disability assist dog’ is a generic term for a guide, hearing or assistance dog that is specifically trained to carry out at least one task to mitigate the effects of an individual’s impairment. Disability assist dog means a dog certified by one of the organisations listed in Schedule 5 of the Dog Control Act 1996 as being a dog that has been trained (or is being trained) to assist a person with a disability. Disability assist dogs make a positive difference in the daily lives of individuals (children and adults) with a range of impairments, performing tasks for their human companions and providing emotional and social support. They include mobility assistance dogs, hearing dogs, and autism service dogs. The Human Rights Commission states that ‘landlords cannot refuse to rent you a flat because you rely on a disability assist dog. Disability assist dogs are not pets and have special rights under the Human Rights Act.’

### *Analysis (B2)*

63. Landlords are likely to be supportive of this option because it provides the most certainty for them and guarantees more control over their properties.<sup>21</sup> It would clarify the understanding of the law prior to the recent trend in Tenancy Tribunal decisions.
64. In the 2018 Reform of the Residential Tenancies Act consultation, the question “should a landlord be able to refuse a tenant’s request to keep a pet without giving a reason?” was the most frequently answered question in the survey. Eighty-three percent of landlords considered that landlords should be able to decline pet requests without giving reasons.
65. Tenants are likely to be less supportive of option two because pet requests may continue to be declined by landlords for reasons outside of legitimate concerns about damage to property. Landlords and property managers are likely to include blanket prohibitions on pets across portfolios regardless of the individual circumstances. This would undermine tenants’ rights to quiet enjoyment, balanced against relevant considerations (e.g. the suitability of the property for a particular pet) and a landlord’s right to protect their property from damage. This situation can undermine tenants’ ability to feel at home in their rental properties. Tenants may resort to keeping pets without landlord permission, undermining mutual trust and good faith between tenancy parties.
66. However, the above proposal to introduce pet bonds to address landlord concerns about pet damage may help to mitigate some of the above issues and result in more landlords renting properties to tenants with pets.

### ***Option B3 – Provide landlords may refuse pets on prescribed or reasonable grounds***

67. Under option B3, the RTA would be amended to provide a non-boarding house tenant may only have a pet with the written consent of the landlord, who may only refuse consent on prescribed or reasonable grounds.
68. Under this option, the prohibition on pets in boarding houses would remain (section 66K(2)(g) of the RTA). This is reasonable given the nature of shared facilities and communal living in boarding houses, giving rise to a higher likelihood that a tenant’s pet could interfere with the quiet enjoyment of other tenants.
69. A non-exclusive list of refusal grounds would be prescribed in the RTA or regulations, including:
  - a. The property is not suitable for the pet due to factors such as the size of the property, insufficient fencing, or unique features that would be difficult to remedy if damaged by a pet.
  - b. Relevant body corporate rules or council by-laws which prohibit pets.

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<sup>21</sup> There is a prompt in the Tenancy Services tenancy agreement template to include a pet clause, and many landlords include ‘no pets’ clauses in their tenancy agreements as a matter of standard practice.

- c. The pet is unsuitable for the rental property due to the size and type of animal, its propensity for causing damage to premises or disruption to the neighbourhood, the dog is classified under the Dog Control Act 1996 as dangerous or menacing, or it is known that the dog has previously attacked people or other pets.
  - d. The tenant has not complied with relevant local animal laws such as the pet is not chipped or (in the case of a dog) registered.
  - e. The tenant has not agreed to the reasonable conditions proposed by the landlord as part of the consent to keep the pet.
70. As above for option B2, disability assist dogs, as defined in the Dog Control Act 1996, would not be 'pets', and therefore be an exception to the pet rules.
71. If not permitted in a tenancy agreement, tenants would need to get the written consent of a landlord if they wished to obtain a pet, and a landlord would need to respond within 21 days.
72. Under option B3, landlords would not be able to make their consent subject to unreasonable conditions. For example, it may be reasonable for a landlord to make consent subject to the tenants only keeping a single pet or small number of pets, or that the pet must stay outside or in a particular part of the property.
73. Tenants and landlords would be able to apply the Tenancy Tribunal for resolution of disputes about pets, for example a tenant would be able to dispute a landlord's decision to refuse a pet or the conditions on which the pet has to be kept and a landlord would be able to pursue remedies against a tenant who obtained a pet without first obtaining the written consent of the landlord.
74. Under option B3, the following new unlawful acts and associated maximum exemplary damages would be introduced:
- a. A landlord withholding consent to a tenant's request to keep a pet (\$1,500);
  - b. A landlord attaching unreasonable grounds to a tenant's request to keep a pet (\$1,500);
  - c. A landlord not responding to a request by a tenant's request to keep a pet within 21 days without reasonable excuse (\$1,500).

#### *Analysis (B3)*

75. Option B3 is more likely to be the preference of tenants who find it difficult to find pet-friendly rental options, as it would provide parameters around a landlord's ability to refuse pets. The approach under this option is similar to the assignment provisions in the RTA, which provide a tenant must obtain a landlord's written consent to assign a tenancy, and the landlord can withhold consent on reasonable grounds.
76. General themes expressed by tenants in the context of the Reform of the Residential Tenancies Act consultation in 2018 were that pet ownership should not be a privilege reserved only for homeowners and pets can have positive impacts on wellbeing. Seventy-two percent of tenants considered that landlords should not be able to decline pet reasons without giving reasons.
77. Many comparable overseas jurisdictions (e.g. Australia) either take this approach or are considering legislation reflecting this approach. For example, tenancy legislation in the



following Australian states provides tenants may only have a pet with the written consent of the landlord, who may refuse consent on reasonable grounds: ACT, Northern Territory, Victoria, and Queensland. Three other Australian states as well as England are currently considering introducing similar provisions, and Scotland has introduced a Bill to the same effect.

78. Landlords are likely to be concerned under option B3 they would have less control over their rental properties and therefore about the risk of pet damage under this option. These concerns could be mitigated by the ability to attach reasonable conditions to consent, and the introduction of the pet bond tool (discussed above).

## B. Analysis of options to regulate rules for tenants keeping pets in rental properties

	Option B1 - <i>Status Quo</i>	Option B2 – Provide for the enforceability of ‘no pet’ clauses	Option B3 – Provide landlords may refuse pets on reasonable grounds
<b>Effectiveness</b>	<p>0</p> <p>The situation will remain unclear for landlords and tenants as to whether landlords can refuse pets in any circumstances and tenants can keep pets.</p> <p>At the margins, landlords will continue to be reluctant to keep renting out their properties at all, due to the risk of pet damage.</p> <p>Some tenants will continue keeping pets without permission.</p>	<p>0</p> <p>Would address pet damage risks for landlords by permitting them absolute discretion to ban any pets.</p> <p>Landlords would be able to refuse any pet even if property suitable and/or there is a low risk of damage. ‘No pet’ clauses will become the default for many property managers and landlords.</p> <p>Would not result in more rental accommodation choice for tenants with pets or allow tenants to feel more at home in their rental properties by allowing them to keep their pets.</p> <p>Some tenants would continue keeping pets without permission.</p>	<p>+</p> <p>Some landlords may take properties off the market if they feel they have less control over whether a tenant keeps a pet and therefore risk of pet damage.</p> <p>However, a landlord would be able to refuse pets on reasonable or specified grounds, so would have a degree of control over their property and ability to mitigate risk. They would also be able to impose reasonable conditions on a tenant as part of their consent.</p> <p>Increased rental options for tenants with pets.</p> <p>Positive physical and mental benefits for tenants of keeping a pet.</p> <p>Increased likelihood of long-term tenancies.</p> <p>Transparency over pet rules would more effectively address unlawful pet keeping and therefore increase landlord’s ability to monitor animal practices and enforce cleaning and maintenance requirements if necessary.</p>
<b>Proportionality</b>	0	+	-

	No additional regulatory costs but leads to the issues above.	Unlikely to have a significant negative impact on government. Less compliance costs or risk of disputes than option B3.	Unlikely to have a significant negative impact on government. Compliance costs for tenants and landlords in relation to pet requests and responses. Tenants may incur some costs if they choose to dispute a landlord's decision to refuse a tenant's request to keep a pet.
<b>Certainty</b>	0 Low certainty for both tenants and landlords as the legal basis for accepting or declining requests is unclear. Low predictability as to whether a pet will be acceptable in any given situation.	++ Gives absolute certainty for landlords and tenants about whether a tenant can keep a pet in a tenancy.	+ Would reduce current uncertainty somewhat as codifies trend in approach taken by Tenancy Tribunal. Would increase consistency for both landlords and tenants as to the parameters for tenants keeping pets / landlords refusing pets. Provides greater certainty to landlords and tenants about their legal obligations in relation to pet requests.
<b>Fairness</b>	0 Lack of clarity in the law and inconsistent decisions by the Tenancy Tribunal leads to unfairness for landlords and tenants.	- Pet requests are decided at the discretion of the landlord, sometimes based on personal preference or under a blanket approach, with no regard to the circumstances or risk of damage. Tenants uncertain of grounds for requesting a pet and have no transparency over landlord's reasons for refusing pets. Tenants denied benefits of having a pet in many circumstances.	+ Landlords able to refuse pets on reasonable grounds, or impose reasonable conditions on consent, and are therefore able to mitigate their risk of pet damage. Tenants would have clearer rights to keep pets or a basis for challenging a refusal.

<b>Overall assessment</b>	0	2+	2+
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- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- 0 about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

## Options B2 and B3 are evenly balanced in terms of providing for the clear and effective regulation of pets in rental properties

79. Options B2 and B3 have the same net benefits. Option B2 (provide for the enforceability of 'no pets' clauses) gives more certainty to landlords, mitigates damage risk to rental properties, and has less compliance costs. Option B3 (provide landlords may refuse pets on reasonable grounds) would provide a clearer framework for tenant rights to keep a pet and landlord reasons for refusing pets.
80. Giving more weight to the effectiveness and fairness criteria, option B3 is preferred, as it would balance the interest of landlords in protecting their properties from potential pet damage with the benefits to tenants of keeping pets. The concerns from landlords about pet damage to properties would also be mitigated if the option to introduce a pet bond is implemented.
81. Establishing clear parameters for the appropriate conditions and grounds for refusing a specific pet, or a particular category of pet/s, would provide guidance for both landlords and tenants, and reduce the risk of disputes arising. If disputes arose, parties could apply to the Tenancy Tribunal for resolution.

### What are the marginal costs and benefits of the option?

82. The marginal costs and benefits of the preferred option to provide a landlord can refuse a pet on reasonable grounds are outlined below:

<b>Affected groups</b>	<b>Comment</b> <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i>	<b>Impact</b> <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i>	<b>Evidence Certainty</b> <i>High, medium, or low, and explain reasoning in comment column.</i>
<b>Additional costs of the preferred option compared to taking no action</b>			
Regulated groups	Landlords, property managers, and community housing providers will have increased compliance costs, from having to consider pet requests on a case-by-case basis.  Tenants and landlords may need to agree conditions on which the tenant keeps a pet.	Low - medium	Medium – unknown how many tenants will request pets
Regulators	MBIE to inform landlords, tenants and others in the sector about the new rules, including updating Tenancy Services website, tools and guidance and through calls from customers to its Service Centre.	Low - medium	Medium – MBIE can estimate costs based on experience as regulator (implementing, monitoring, and enforcing previous changes to the RTA regime).

	Call centre increased calls about pet keeping.		
Others (e.g., wider govt, consumers, etc.)	<p>MBIE/MOJ - potential increased costs for mediation services in relation to disputes about pet consent requests. Pet consent regime and disputes about pets may increase case load and complexity of hearings for Tenancy Tribunal.</p> <p>MOJ – costs implementing changes to Tribunal case management system.</p> <p>HUD – cost of monitoring impact of changes on sector.</p>	Low – medium	<p>Low</p> <p>Unknown how many disputes there might be about pet requests.</p> <p>MOJ can estimate costs based on previous system changes.</p> <p>HUD can estimate monitoring costs based on current and previous monitoring of RTA changes.</p>
<b>Total monetised costs</b>		unclear	
<b>Non-monetised costs</b>	-	Low - medium	Low - Medium
<b>Additional benefits of the preferred option compared to taking no action</b>			
Regulated groups	<p>Tenants, landlords, property managers, and community housing providers benefit from clear framework for the rights and obligations of tenancy parties in relation to pets in rental properties.</p> <p>Landlords able to refuse pets on reasonable grounds (including on those specified) if they wish.</p> <p>Depending on their circumstances, tenants with pets may have more rental choice. There may be an increased number of tenants able to have pets with associated mental health and social benefits.</p> <p>Landlords likely to have more satisfied and settled tenants, with less turnover.</p>	High	Medium – unclear how many tenants will request and receive consent for pets.
Regulators	No immediate direct benefits to MBIE from the proposed pet consent regime.	Low	High
Others (e.g., wider govt, consumers, etc.)	The Tenancy Tribunal will have more clarity on adjudicating on disputes	High	Medium

Tenancy Tribunal	about tenants having pets through the new pet consent framework and decisions will be more consistent.		
<b>Total monetised benefits</b>		Unclear	-
<b>Non-monetised benefits</b>		Medium	Medium

## Section 3: Delivering an option

### How will the new arrangements be implemented?

83. Implementation of the new arrangements will be made through an RTA Amendment Bill, under the scrutiny of Parliament. Proposals may be refined through select committee consideration and the input of stakeholders and the sector, subject to the agreement of Cabinet.
84. Transitional issues will be considered for tenancies in existence at the time the new provisions are commenced.

#### *Pet bonds*

85. The implementation of the pet bond system will be undertaken by MBIE. MBIE is currently undertaking a bond transformation project, to reduce technology risk, improve customer service deliver and to support better outcomes across the wider residential tenancy regulatory system. Implementation of the pet bond system will be undertaken in conjunction with this project.
86. Implementing pet bonds is likely to require a higher level of resourcing in the first year due to setting up new processes, increased staff, and staff training. An appropriate lead-in time will be needed.

#### *New pet rules and pet bond*

87. Tenancy Services will publish guidance on the new rules and pet bond, and information on changes will be disseminated through usual channels e.g. social and mainstream news media, and direct contact with landlord, property managers and tenant groups.
88. MOJ will update its Tribunal case management system to reflect the RTA changes, if required.

### How will the new arrangements be monitored, evaluated, and reviewed?

89. Once implemented, MBIE will monitor the way the pet bond system is working, the number of pet bonds being lodged, and how many pet bonds are being paid out in accordance with Tenancy Tribunal decisions.
90. Tenancy Tribunal decisions will be monitored as a gauge of the effectiveness of the amendments once legislation has been passed. MBIE will also liaise with Tenancy Services staff (including mediators and adjudicators) and seek feedback from tenancy stakeholder groups.
91. The impact of the amendments will also be monitored in terms of the number of contact centre calls about pets.
92. HUD will monitor the way the amendments are working with reference to Tenancy Tribunal decisions, media coverage following changes to legislation, consulting with other government agencies, and liaising with the Principal Tenancy Adjudicator, industry associations and tenancy advocacy groups.