



# Reasonable Rents

A Green Party discussion document  
May 2021



GREEN PARTY DISCUSSION DOCUMENT



## The right to reasonable rents

A decent, affordable home is a basic right, and in Aotearoa we can make it a reality.

But for decades, successive governments have stood by and allowed rents to become unaffordable, while at the same time not building enough state homes.

Rising rents eat away at household budgets, force people to move home often, and make it harder to save for a first home deposit.

The Green Party knows this can't go on. We want to hear your views on how to make rents reasonable.

Reasonable rents would make housing more affordable, and enable people to stay living in their homes and communities for longer.

### **Renting is unaffordable for many people**

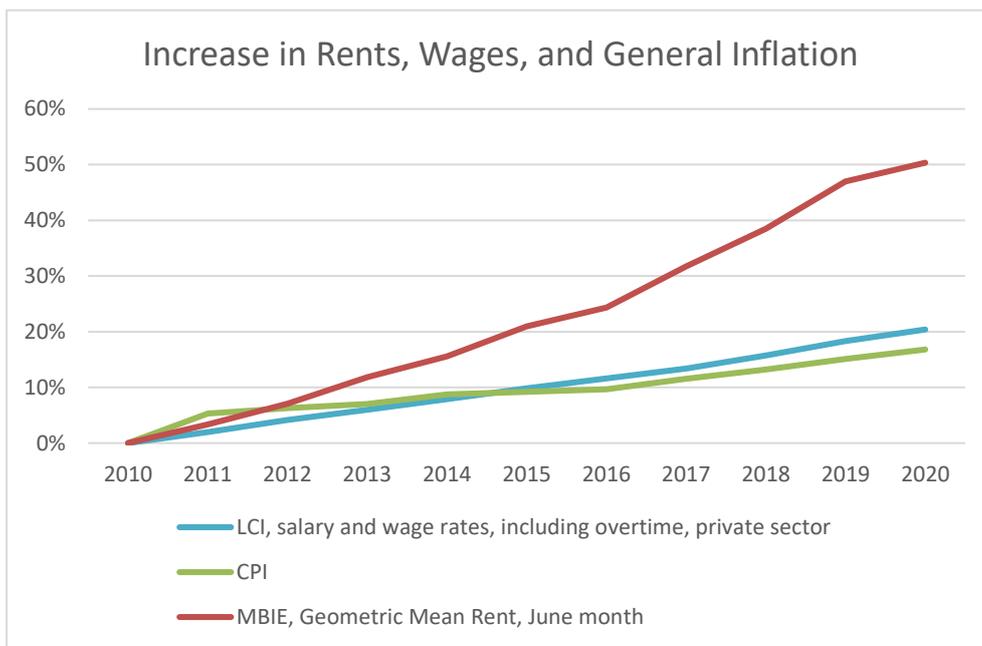
A home is a home, whether someone rents or owns it. The 1.4 million people who rent in Aotearoa should have a reasonable expectation of being able to stay in their home for as long as they need to.

But the cost of renting a home is rising rapidly, much faster than incomes. Internationally, having to spend more than 30 percent of your income on housing is recognised as “unaffordable”. In Aotearoa, more than four out of every ten people who rent have to spend more than 30 percent of their income on rent.<sup>1</sup> People who rent generally spend a higher proportion of their income on housing than people who live in a home they own, and rental housing is often lower quality.<sup>2</sup>

Rent in cities like Auckland and Wellington has been unaffordable for a while, and now the problem is spilling out into other parts of Aotearoa.

Northland, Waikato, Gisborne, Hawke’s Bay, and Marlborough have all hit new highs for median rent in 2021.<sup>3</sup>

The chart below shows how rents have grown much faster than wages and general inflation over the past ten years.<sup>4</sup>



When rents get really unaffordable, people are made homeless. Rising rents also force households to go without other essential items, such as healthy food and heating.

Unaffordable rent can make families move around in search of a more affordable home, unsettling community connections and children’s education. High rents can push people to move further away from their jobs and places of education, increasing commuting time and making it inconvenient for people to walk, cycle, or use public transport. They can disrupt established neighbourhoods and communities, leading to gentrification.

In Aotearoa, one-year tenancy agreements are the norm, and landlords often keep rental properties in worse condition than owner-occupied homes. For example, twice as many rental properties have dampness problems, compared to owner occupied homes.<sup>5</sup> People who rent have to accept insecure and poorer quality housing. With rents increasing faster than incomes, people lose the chance to save a first home

deposit. Successive governments have treated renting as a temporary step on a path to home-ownership, but renting is a long term reality for many people.

Renting a warm, dry, accessible home should be affordable for everyone, no matter how long they're planning to rent for.

## **There's nothing to stop it getting worse**

Unlike many other countries, Aotearoa does not have strong or effective rules for rental affordability. Recent changes to the Residential Tenancies Act limit rent increases to once a year and aim to stop "rent bidding", but they don't stop rents becoming unaffordable.

The law states that rents must not exceed the market rent by a substantial amount. The only way to enforce this is for a tenant to challenge their rent through the Tenancy Tribunal. The Tribunal looks at market rents in that area, and decides whether the rent for that specific property is fair. This places the burden on individual tenants, rather than creating a fairer system overall. It also means what is judged to be fair rent doesn't consider what is actually affordable for people who rent.

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*"The tenant will need to have evidence that their rent is a lot higher than rent for similar houses in the same area."*

- Ministry of Housing and Urban Development website.<sup>6</sup>

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The system isn't working, and rents are rising to unaffordable levels in many parts of Aotearoa. Rents for properties listed on TradeMe are rising faster than they have since 2018.<sup>7</sup>

## The rental market is unbalanced

Rental rules in Aotearoa are not designed to deliver stable, affordable, quality housing for people. While there have been some recent positive changes, most rules only set out the bare minimum for housing quality and affordability.

In places like Aotearoa where there are not enough homes, renters are often faced with a “take what you can get” situation, knowing that most landlords will easily be able to find other tenants. This disproportionately affects young people, Māori, Pasifika, and disabled people, who are more likely to rent a home.<sup>8</sup>

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*“Reasonable rent rules are fundamentally about reducing the power imbalance between people who need to rent a home and those who own properties as investment assets.”*

- Marama Davidson, Green Party Co-leader & housing spokesperson

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Rising rents are often driven by a particular neighbourhood becoming more desirable, or an overall shortage of housing – not because of anything specific to an individual property. For older rental properties, the costs of building the home will have been paid off long ago, and its overall capital value will have risen on the back of rising land values. The value of a landlord’s property asset increases independently of the rent charged, and that value is often realised tax free because there is no comprehensive capital gains tax in Aotearoa.

Rent regulation can also reduce the incentives for short-term, profit-driven property speculation. This can help level the playing field for non-profit, community-based, papakāinga, and build-to-rent housing developments, undertaken by people who are in it for the long-term and want to provide stable, secure tenancies. Rent regulation can provide long-term stable investors with a good way of predicting their long term returns.

## **Stable housing is good for everyone**

Reasonable rents do more than just make sure people's living costs are manageable, they also enable people to stay in the same home for longer. Overseas evidence shows that people living in rent controlled or rent stabilised homes tend to stay in the same home for longer than people whose rents are not regulated.<sup>9</sup>

Being able to stay in the same home helps families put down roots in communities and be part of their neighbourhoods. Children can stay in the same schools, which helps contribute to better learning. Secure tenure helps support secure employment. Housing stability allows people to build a quality future, rather than living with the stress of not knowing how long they have a home for.

Recent changes to the Residential Tenancies Act have helped, but the standard tenancy agreement in Aotearoa is still just 12 months. If rents rise a lot, people can be pushed out of their homes.

Landlords also benefit from secure, long-term tenants who have an extra interest in looking after properties because they want to keep living there. Institutional housing investors looking for stable, predictable, long-term investment returns might find that reasonable rent regulation helps deliver this.

## **Building more homes is part of the solution**

Many more homes need to be built, for renting and owner-occupiers. These should be a mix of state homes, homes built by non-profit community housing providers, papakāinga housing, and private rentals. New housing must also be built with community connection and the climate crisis in mind: close to jobs and schools, with green space, and good low-emissions transport connections.

The Green Party has previously proposed extending Kāinga Ora's financial underwrite to community housing, iwi and hapū-led housing, and build-to-rent developments.<sup>10</sup>



In Aotearoa, it has historically been state-led housing development that has ensured enough affordable homes are built for population growth. The state clearly still has an important role to play. After decades of Governments running down and selling off the state housing stock, the Government is now building more state homes than any Government has since the 1970s.

However, building takes time and by itself, it won't solve the immediate affordability problems that people who rent are facing today.

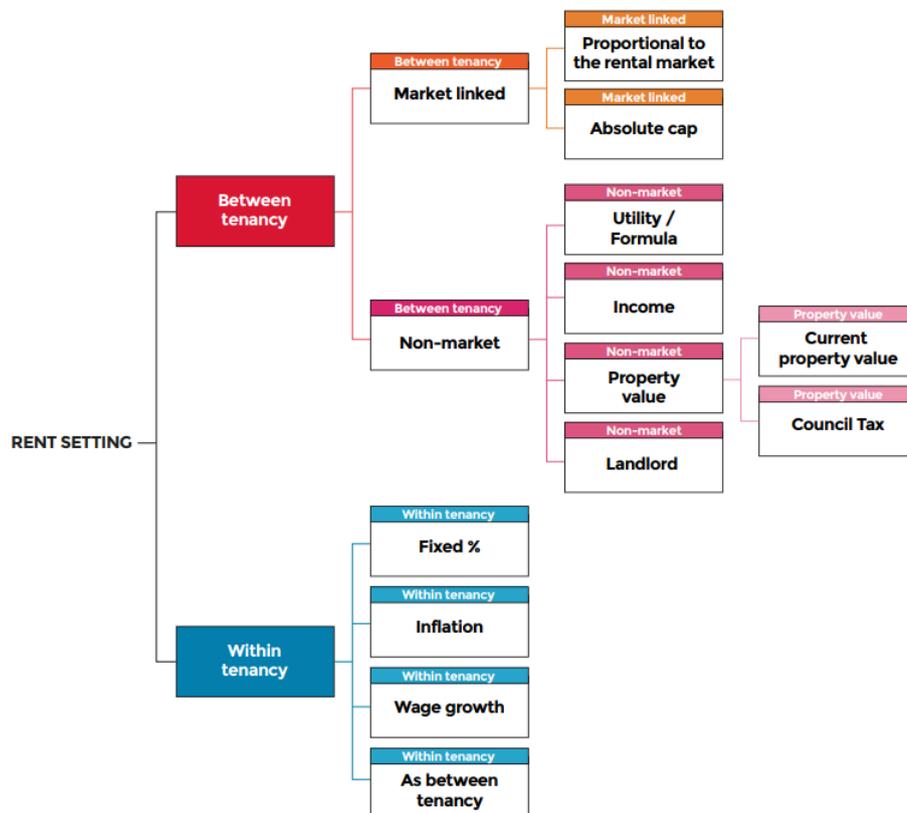
You can see more about the Green Party's other plans to get more homes built at [https://www.greens.org.nz/homes\\_for\\_all](https://www.greens.org.nz/homes_for_all)

# Other countries have rules to make rents reasonable

There are many different types of rent stabilisation rules and rent controls around the world.<sup>11</sup> These are covered by two main categories: rules about the amount of rent a landlord is allowed to ask for, and rules about when and by how much rents can be increased. Rules about how much rents can be increased during a tenancy are becoming common.<sup>12</sup> Other relevant rules include how long standard leases are for, deposit requirements, eviction rules, and rules governing the quality of rental properties.

The chart below is from the UK's New Economics Foundation, and shows different types of rent controls.<sup>13</sup>

**FIGURE 1 TYPES OF RENT CONTROLS**



London's mayor is proposing to limit rent increases in the short term, while an independent Rent Commission is established to design a long-term system of rent control that reduces rents to a "desired rent level" over time.<sup>14</sup> Aotearoa faces a similar situation to London: high rents making housing unaffordable for many people, a lack of good data about the private rental market, and weak regulatory mechanisms for better rules to be enforced.

In Ireland and Scotland, the Government has declared Rent Pressure Zones in some areas. Landlords inside these zones can only increase rents by four percent a year in Ireland and by inflation plus one percent in Scotland.

California takes a similar approach: annual rent increases cannot be more than five percent plus local inflation. Most Canadian provinces also restrict annual rent increases to a certain percentage, which varies between provinces.

In Sweden, groups representing tenants and landlords (including municipal housing organisations) negotiate rent increases that apply to around 500,000 homes. If they can't agree, an independent government agency sets fair rent standards for homes based on things like size, location, and features. This approach attempts to agree the "value" of a home based on the home itself, rather than market prices.

The Netherlands has a similar system, where rental properties are allocated points for things like size, condition, facilities, and distance from transport links, shops, and schools. The number of points determines the maximum rent allowed.

New York has a Rent Guidelines Board which sets annual rent adjustments for some apartments. The Board is made up of two landlord representatives, two tenant representatives, and five members representing the public.

Malta caps rents at two percent of the market value of a property.

When rents started rising rapidly, Berlin froze the rents of properties more than five years old at their 2019 level for five years. Conservative political parties challenged this and the courts have recently overturned

the rent freeze, on the grounds that the state government did not have authority to freeze rents.<sup>15</sup>

In France, rents are capped at no more than 20 percent more than the “reference median rent” for similar properties.

Several countries have exemptions or different rules for newly built rental properties, to encourage developers to build more homes.

There is also growing evidence of what works well. According to an economist at the City University of New York:

*“A number of recent studies have looked at the effects of rent regulations on housing supply, focusing on changes in rent regulations in New Jersey and California and the elimination of rent control in Massachusetts. Contrary to the predictions of the simple supply-and-demand model, none of these studies have found evidence that introducing or strengthening rent regulations reduces new housing construction, or that eliminating rent regulation increases construction. Most of these studies do, however, find that rent control is effective at holding down rents.”<sup>16</sup>*

In Aotearoa, we can learn from what has worked overseas.

# Principles for regulatory design in Aotearoa

We think there are some important factors that would make reasonable rent rules work in Aotearoa:

1. The Government needs a good database of landlords, properties, and rents, so rules can be applied fairly and accurately.
2. Rents for individual homes need to be reasonably consistent across successive tenancies, so landlords can't push tenants out just to put the rent up.
3. The obligation to show why a large rent increase is fair should sit with the landlord, rather than the current system where tenants have to take their landlord to the Tenancy Tribunal to prove a rent increase isn't fair.
4. An independent agency is needed, with a mandate to enforce the rules. This helps level the playing field between landlords and tenants, and could include representatives of tenants and landlords.
5. Standard maintenance and upkeep, or meeting minimum quality standards like the Healthy Homes standards, shouldn't justify a large rent increase. But landlords should be able to cover the cost of genuinely substantial improvements, like a whole new upgraded kitchen.
6. Short term property speculation should be discouraged, but people and organisations who build new homes to rent out on a stable, long-term basis should have a reasonable expectation that they can pay off their investment over a reasonable period of time. Reasonable rent rules can help provide this for long-term investors, because they can predict future rents.
7. Governments need to continue to support the supply of new homes to catch up with population growth. This includes

building many more state homes, supporting papakāinga, working with non-profit community housing providers, and enabling infrastructure.

As well as reasonable rent rules, moving to longer-term tenancy agreements as the default would give people greater housing security. Some people want to move around a lot, but many want to make their rented house a long-term home.

A formal right to withhold rent if urgent repairs are not carried out could help make the safety and quality of renting more reasonable. The Government could hold the rent in trust, and release it to landlords when urgent repairs are completed.

The design of reasonable rent rules might also consider exemptions or incentives for build-to-rent housing, especially if built by non-profit community housing organisations or linked to Māori-led and papakāinga housing. Non-profit community housing developers often already charge below market rents.

## Options we're considering

The Green Party is considering several different ways to make rents reasonable. Some of these options could be implemented together.

### **Option 1: rent transparency for new tenants**

Landlords could be required to tell potential new tenants how much rent they charged the previous tenants in a property. This transparency would make things fairer for tenants. It could encourage landlords not to use a new tenancy as an opportunity to significantly raise rent on the same property. The transparency requirement could also cover the previous 3-5 years rent. If landlords seek higher rent, they would need to explain why: for example, making substantial upgrades to the property between tenancies.

However, this wouldn't actually limit rent increases. In the current market where housing supply does not meet demand, a new tenant

might still need to pay much higher rent than the previous tenant – just to get a home.

## **Option 2: link new rents to what previous tenants paid**

Rent for new tenants in a property could be linked to what the landlord charged the previous tenant. For example, the new rent could be limited to a certain percent more than the previous tenant paid. This would help slow the rate of rent increases when tenancies change, and give new tenants a fairer deal relative to previous tenants.

A larger rent increase could be allowed if a landlord has made substantial improvements to the property that genuinely increase its value (e.g. a new upgraded kitchen or bathroom, or building a garage), but not just what is required to meet Healthy Homes Standards or for regular maintenance and upkeep like basic paint jobs, new curtains, or fixing leaks.

## **Option 3: agree maximum rent increases in tenancy agreements**

Tenants and landlords could be required to agree how future rent increases will be decided, when they first sign a tenancy agreement. For example, a tenancy agreement could state that landlords will not raise rents on a property by more than five percent a year, or it could state that landlords will not raise rents more than inflation or average wage increases.

These types of agreements are already common in commercial property leases in Aotearoa. The UK Government's standard tenancy agreement template has an option for tenants and landlords to agree a maximum percentage increase for rent.<sup>17</sup>

This would allow renters and landlords to plan ahead, knowing what future rents could be. However, there's an unequal power balance when renters are signing a tenancy agreement because the landlord often knows they could just get a different tenant, so many people who need a home might not be able to negotiate a fair deal. Also, if market

average rents reduce, tenants might find themselves locked into previously agreed rent increases that are now out of step with similar properties.

### **Option 4: set limits on annual rent increases**

The Government or a new independent agency could determine what a reasonable rent increase will be in different parts of Aotearoa each year.

They could look at things like general inflation and the cost of living, average wage growth, borrowing costs, and other relevant things. Landlords would not be allowed to raise rents beyond this annual limit.

Different limits could be applied in different parts of Aotearoa, or rent increases could only be limited in areas where rents are rising rapidly or already unaffordable.

A larger rent increase could be allowed if the landlord can show that the property has undergone substantial improvements, not just regular maintenance and upkeep.

### **Option 5: set fair rent standards**

The Government or a new independent agency could assess reasonable rent levels for particular types of properties, looking at things like a home's size, design, features, and location. They would then agree a reasonable range for what rents can be charged for similar properties, and landlords would have to charge a rent within that range, unless they can show why a higher rent is reasonable. The fair rent standards would be updated annually.

### **Option 6: freeze rents for a few years**

The Government froze rents when Aotearoa went into COVID-19 lockdown, but the freeze has ended and rents are rising again. Aotearoa is in a housing crisis and so rents could be frozen again for a period of time. Rents could be frozen nationwide, or in the least

affordable areas to stop them becoming worse, or in areas where rents are rising much faster than wages.

A quick rent freeze could be applied in the short term, while other long-term options are put in place.

## **Option 7: change the Accommodation Supplement instead**

Instead of putting in place reasonable rent rules, the Government could increase the subsidies it pays to people on low incomes to help cover housing costs. The Government already pays out nearly \$2 billion a year for the Accommodation Supplement, to over 350,000 households.<sup>18</sup> A small proportion of people use this to pay mortgages, but most use it to pay rent. This is expected to reach \$2.6 billion by 2026, with over 400,000 households relying on it for support meeting their housing costs.<sup>19</sup>

The Welfare Expert Advisory Group examined housing subsidies and found that:

*The [housing] subsidies provided through the welfare system are demand-side supplements that continue to increase in a housing market that is overpriced and undersupplied and where these factors are worsening. These subsidies simply increase with rent inflation and, some make the case that in all probability, contribute to higher housing costs. However, these subsidies could not be removed, given the current housing market, without increasing poverty and homelessness.<sup>20</sup>*

Currently, the most a single person can get is \$165 a week, families with children can only get \$305 a week, and only lower income earners qualify. In comparison, the median nationwide rent for a 1-2 bedroom home in March 2021 was \$465.<sup>21</sup>

The Government could increase the amount of subsidy people are eligible for, and it could also make more people eligible for this subsidy. This would not make rents more reasonable, but it would help more households be able to afford to pay rent. It is possible that in response

to the higher subsidies, landlords would raise rents, knowing their tenants can pay more.

## **Option 8: renters associations to negotiate rents**

Government subsidies help around 300,000 households pay their rent – mostly through the Accommodation Supplement. These tenancies are individual agreements between landlords and renters, meaning renters don't have much power to negotiate. The Government could group together renters who receive the Accommodation Supplement, and negotiate as a collective with landlords to set reasonable standard rents in different areas. Because so many renting households receive the Accommodation Supplement, their collective power could help influence market rents for everyone else too.

An alternative approach would be for the Government to develop a collective bargaining framework for tenants who use the same property management company, to negotiate rents and/or rent increases as a collective. This could facilitate the development of tenants unions, which exist in some other countries like Sweden. While it would not initially cover all rental properties (only those managed by particular property management companies), this approach might influence market average rents enough to make a difference for all rents, and it could be extended to other tenancy agreements over time.

## **Responsible rental property management**

Many landlords and property managers are responsible and treat their tenants well – but some let everyone else down.

There is no licencing or registration of landlords, property managers, or rental properties in Aotearoa. The Government does not have a coordinated way of keeping track of which properties are rented, who owns them, or how much rent is charged. Compared to other occupations that provide services that affect peoples' personal wellbeing and safety like taxi drivers, doctors, and builders, there is no professional regulation for people who choose to run rental properties as a business.

Evidence from the UK suggests that long-term institutional investors who might provide stable, secure, affordable rental housing can be put off by reputational risks in the broader rental market. In other words, responsible investors may not want to invest in rental properties because they don't want to be associated with the bad reputation of some landlords.<sup>22</sup>

Registration and licencing of landlords and property managers is becoming more common internationally.<sup>23</sup> Scotland and the Australian state of Victoria require a "fit and proper person" test. Registers can help with tracking rents and making rent regulation work, collecting tax, and monitoring the standards of properties including hazards like asbestos and lead paint.

All of the reasonable rent options need a good base of information to make them work. We think the Ministry of Housing and Urban Development should create a register of rental properties, their owners, and intermediaries like property managers. This would enable the Government to track the amount of rent charged for a property over time, and compare it easily to other similar properties. If a landlord kept breaking the rules around rents or other tenant protections like Healthy Homes Standards, they could be struck off the register and not allowed to be a landlord anymore.

The Government should also bring rental property managers into a similar regulatory system to real estate agents. That would enable professional standards to be set, and a formal complaints mechanisms to be put in place. Property managers who repeatedly breach their obligations could have their licence revoked.

## Tell us what you think

Should the Government take action to make rents more affordable?

Which options for reasonable rent rules do you like the most and which do you like the least? Why?

How else could the Government make renting more reasonable?

**Answer online at [www.greens.org.nz/reasonable\\_rents](http://www.greens.org.nz/reasonable_rents)**



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