

A message from your Property Manager

October 2019



Healthy Homes and Ring Fencing

Ok, so we now know the rules around the Healthy Homes legislation (HHL). Also the Ring-Fencing legislation has passed and is now active for this financial year. Many landlords have missed the Ring-Fencing change, and we have had to see what the HHL means for most landlords in practice. In case you hadn't guessed...it's ugly. The HHL in particular will have an impact on you, and your planning moving forward, so much so that we are breaking it into 2 updates for you on this subject.

Ring-Fencing

This blow from the Government is about removing negative gearing for new landlords. So, from this current financial year all rental tax losses cannot be claimed against other non-property income. So if you were getting a tax refund from last year, you won't see one in 2020. This change puts recent property investors at a disadvantage in that it is most used in the early stages of owning an investment. Larger and long established investors will likely see no impact for them. In the future this change will disadvantage new entrants to property investment and advantage existing landlords, as it will restrict the number of rental properties made available.

Healthy Homes Legislation Costs

This is the big one. After 3 months of doing HH check-lists and bringing properties up to the new standard, we can tell you this:

- Almost all properties will require Heat Pumps (HP) to be installed
- Budget \$2,000 - \$3,000 per property
- Do it earlier rather than later

Only newer, well insulated units, with small lounges, will be able to avoid adding a HP. A wall heater covers us up to 2.4kw heating capacity and this is quite cheap, only about \$250 for the purchase and install. As soon as we go above 2.4kw a HP is required. The installation cost is around \$700-\$800 and the rest is for the HP. The cheapest HP install is around \$1,500, but the most common one we have had installed is for \$2,000 all up and you are covered for heating up to 6.0kw. Then there are the costs for kitchen extractors and fans which must all now have external vents, or be installed if they are not there. Plus potentially moisture barriers and insulation top-ups. We will go into more detail in the next update, but we will attach the (22 page!) standard questions and answers booklet so you can get a feel for how daunting this is going to be for many landlords.

You should know that all tenancy agreements now have to have an insulation statement, insurance excess details, and a HH Compliance statement (yes or no). From July 2020 we are required to actually state where the property does not comply with HHL. Yes, that's right... we have to say in writing how the property is not yet up to standard. From July 2021 any new tenancy has to fully comply with HHL (within 90 days), and from July 2024 it has to comply no matter when rented out.

Healthy Homes Legislation Impact

What might all this mean for you? Well apart from the cost, we think that this has market implications.

More and more rentals will be advertised as HH compliant and having HP's, so these properties will achieve higher rents, and rent more quickly. So, if you leave compliance until later it will likely have a hidden cost for you. In addition, as with the insulation requirements, many landlords will leave compliance until the last minute. But, unlike insulating where in a pinch you can do it yourself, only registered electricians can install HP's. We figure that the cost of installing a HP will likely go up in 2021 as demand increases.

Some newer landlords will sell up in 2020-21 rather than face these costs, especially when they can no longer claim a tax refund. Oh, (and wouldn't you know it) the cost of installing a HP is not tax deductible, but has to be depreciated over time. With all of these changes from the current Government, it is becoming much much harder to be a landlord. Landlords have to pay the letting fee, thousands of dollars for HHL compliance, get no tax refund, and perhaps soon can't even get rid of anti-social tenants with the 90 day notice provisions. As well when buying a new investment property, there will now be many more costs and complications after settlement.

We expect that there will be less new interest in property investment, fewer properties to rent out, and rents will go up. Over time, and especially after 2021, existing investors will likely see a much better rental return.

Our next update will go into more detail about HHL compliance.

