

### 3) Interest Costs

**Owners** buy a property with a large lump of their savings plus a bank loan on which they pay interest.

**Renters** hire a home without any savings deposit. They pay interest on the entire property value.

*The interest on \$100,000 at 5% is around \$100 weekly.*

### 4) Special rental Tax Costs

Home rentals pay more tax than other businesses with the same incomes and expenses. *Like all costs, renters must pay them in their rents.*

#### “Interest” tax

Normally businesses obtain 100% of their interest payments from their taxable incomes. For year ending 2025 rental home businesses lose 20% of their interest payments for income tax purposes.

#### “Ring fencing” tax

Unlike other businesses, home renting businesses cannot use losses to offset other incomes. This means home rental owners pay more tax than owners of other businesses that the same make losses.

*Note: because of Home renting taxes and their complications, extra staff wages and professional fees add to the costs. Then there are extra IRD administration costs for tax payers.*

#### Notes:

- **Weekly costs** in this brochure were copied from the “Renting Calculator’s default settings for a large Timaru 3br flat or a small 2br 2023 Timaru house
- Residential Rental Property (RRP) costs vary depending on buildings and management
- **RRP owners are strongly advised to seek experienced professional advice when making big decisions relating to their RRP businesses.**

**Weekly Incomes must meet weekly Costs**

### Renters’ Benefits:

1. Shelter from the weather and cold
2. Security for possessions and family
3. Clean hot and cold water
4. Facilities for cooking, washing and bathing
5. Access to efficient heating and Wi-Fi
6. Access to reliable electricity
7. Disposal of liquid and household wastes
8. Bus and library services
9. Roads & footpaths for accessibility
10. Parks for enjoyment and relaxation
11. No mortgage, rates and insurance payments
12. No building maintenance, or repair costs
13. No huge replacement and restoration costs
14. No administration responsibilities
15. Freedom to quickly move homes anytime

### Renters’ Responsibilities:

1. **Take good care of rented homes**
2. **Pay rents as agreed**
3. **Be great neighbours.**

**Cooperation and care help keep costs & rents down**

## Rental Home Costs

1) Operational expenses	\$130 pw
2) Replacements & refurbishments	\$290 pw
3) Interest	\$380 pw
4) Special renting taxes	<u>\$ 70 pw</u>
	<b><u>Total \$870 pw</u></b>

*Calculations made for a small 2br Timaru rental house (or large 3br flat) during 2024. Visit [www.rentagain.nz](http://www.rentagain.nz) - “Cash-flow calculator”*

**Note: rental homes are “sustainable” only when rents and capital growth pay the expenses.**

### 1) Operational expenses include:-

#### ► Rates and Insurance

These payments provide:-

- Clean drinking water,
- Waste removal,
- Paved streets, parks, busses,
- Damage protection and much more.

#### ► Administration

Includes wages, equipment and transport for:-

- Inspections,
- Changing tenancies
- Record keeping, correspondence
- Meetings, breaches, debt collections
- Office space, equipment, power and phones
- Organising repairs and refurbishments
- Accountants, managers, estate agents, lawyers.

#### ► Repairs and Maintenance

Wages, materials and transport needed to replace fix and clean small items such as:-

- Alarms, taps, appliances, furnishings,
- Spouting, leaks, cleaning
- Spraying, gardening etc

**Incomes must be able to meet costs**

## 2) Replacement Costs

Buildings have several components that **rust, rot or wear out**, during a building's useful life. (Cars replace tyres etc) Incomes must pay to replace these items. They include:-

- ▶ Exterior walls and windows (*once*)
- ▶ Carpets, vinyl and curtains (*5 times*)
- ▶ Appliances and furniture (*8 times*)
- ▶ Bathrooms (*3 times*)
- ▶ Kitchens (*3 times*)
- ▶ Paint inside and out (*9 times*)
- ▶ Roofs and spouting, (*twice*)
- ▶ Water pipes and drains (*once*)
- ▶ Fences, gates and sheds (*twice*)
- ▶ Heaters and ventilation systems (*5 times*)
- ▶ Insulation (*3 times*)
- ▶ Electric wiring, meter boards, etc (*once*)
- ▶ Floors & piles (*once*)
- ▶ Building themselves also need replacing

Payments between **\$5k & \$30k** are made around 40 times during a building's 120 year life.

These costs, and the interest they would otherwise have earned, just maintain the value of a rental building.

Bank loans can pay these costs and weekly repayments last the life of each deteriorating item.

**Example:** -

**A \$5,500** heating and venting system lasts **15 years**.

**A 15 year table loan** purchases the system.

**\$10pw** repays the \$5,500 15 year term loan.  
(see ANZ mortgage calculator)

**After 15 years** the loan is repaid, and the system needs replacing again with a new loan.

**Renting Calculator** at [www.rentagain.nz](http://www.rentagain.nz) shows the total weekly costs for all replacement items based on users' own values and life expectations.

**Incomes must meet weekly costs**

## Rental home Incomes

### Rents

Rents are set by market values for each area. Guidance for these is found on Facebook, TradeMe, local papers, and Tenancy services.

### Capital growth

**a) Inflation** increases values BUT items (to be) purchased from property sales also increase with inflation. Inflation is non-income.

**b) Market Variations** can be more or less than inflation. The difference adds to, or subtracts from, the rental income.

Example: When a \$400,000 property gains 1% more than inflation, over 12 months, it's weekly capital growth is \$8. A property loses \$8 weekly when its capital growth is 1% less than inflation

### More on Inflation

▶ **At 7.2% inflation, costs double** every 10 years and Incomes also double

▶ **50 years ago:-**

- \$470pw rents were \$16pw (7.0%)
- \$400,000 houses were \$16,000 (7.1%)
- \$900pw wages were \$30pw (7.1%)
- \$4 hot pies were 10 cents (7.7%)
- \$2.95 petrol litres were 11c (6.8%)
- \$100 ski passes were \$6 (5.8%)

**Inflation robs the purchasing powers of every dollar**

### State rental housing in 2023

**Government loses around \$700 weekly on each \$500,000 State rental home it owns.**

(See free calculator at : [www.rentagain.nz](http://www.rentagain.nz) ).

A 30yr, 6% mortgage has a lower weekly repayment (see ANZ mortgage calculator)

Therefore, it's cheaper for the state to give the houses to their tenants pay the mortgage for them.

- **Tribunals help when things go wrong**

## www.rentagain.nz

**Users click any of the following tasks as needed:-**

- Calculating cash-flows
- Changing renters
- Inspections
- Rent reviews
- Breaches
- Debt recovery-

**Each task accesses law and quick and easy suggestions to reduce costs and save time with:-**

● **Cash-flow Calculator**

This XL spreadsheet calculates the weekly cash-flow of any one rental property using capital growth, rent and inflation less costs for administration, interest, operations, refurbishments and ring-fencing tax.

● **Process/checklists**

When helpful, these assist users meet compliance requirements and minimise the risks of breaches and debts.

● **Links**

These directly access government forms, and tenancy law, relating to each renting task.

● **Sample letters**

Written communications are required to exchange important information that may affect the rights and privacy of the tenancy partners or the future of the tenancy itself. Letters provided can be copied and personalised for each individual situation.

● **Information brochures.**

Brochures help communicate the rights, benefits, law, and responsibilities for renters and providers for the rental tasks involving inspections, reviews, terminations and entering contracts.

***Renting involves a legal business partnership***