

Costs and Benefits of Regulating the Residential Property Management Sector - Update

Final Report



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Preface

This report has been prepared for the Ministry of Housing and Urban Development (HUD) by Joey Shannon and Ana Rodriguez from MartinJenkins (Martin, Jenkins & Associates Ltd).

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Introduction

The residential property management sector is not currently subject to any form of occupational regulation to support minimum competency or industry practice standards. The Ministry of Housing and Urban Development (HUD) is currently considering the potential role for occupational regulation in the sector and, if advanced, the preferred form.

In 2022 MartinJenkins was commissioned by HUD to deliver a cost benefit analysis (CBA) assessing a preferred approach (at that time) to regulation of the sector, which had been informed by a discussion document earlier that year. The methodology and findings of the CBA were presented in the report, *Costs and Benefits of Regulating the Residential Property Management Sector*, dated October 2022.

Regulation was not introduced at that time, but is now being considered again. On that basis, HUD commissioned MartinJenkins to update the previous CBA. This included:

- Updating inputs to reflect improved information about the structure and operation of the sector
- Updating inputs to provide up-to-date information (for example, demographic data) where available
- Assessing two potential models for regulation: a licensing model (with some similarities to that previously assessed, but with material changes) and a registration-only model
- Considering administrative costs if the Ministry of Business Innovation and Employment (MBIE) acted as a regulator, versus the Real Estate Authority (REA)
- Applying an updated discount rate of 2% for non-commercial proposals under the Treasury's revised guidance.

As this is an update of the previous CBA, there have been no material changes to the methodology previously applied. The typology of costs and benefits, as well the approaches to benefits attribution and monetisation follow the approach outlined in *Costs and Benefits of Regulating the Residential Property Management Sector* and these reports should be read together.

We understand that the details of regulatory design are still being developed. This report represents our understanding of policy position at a point in time. To the extent that proposals ultimately diverge from what we represented here, there may be a need to revisit the analysis.



Updated findings

We were asked to assess four combinations of options:

- Option 1a: A Licensing and registration model, with MBIE as the regulator and a new tribunal established
- Option 1b: A Licensing and registration model, with REA as the regulator and a blended tribunal including the existing Real Estate Agents Disciplinary Tribunal (READT)
- Option 2a: A registration-only model, with MBIE as the regulator and a new tribunal established
- Option 2b: A registration-only model, with REA as regulator and a blended READT tribunal

Table 1: Options comparison (2% discount rate)

Model	Incremental costs (PV)	Incremental benefits (PV)	Benefit to cost ratio	Net benefit (PV)
Option 1a	199.9	227.1	1.14	27.2
Option 1b	200.5	227.1	1.13	26.6
Option 2a	177.0	203.3	1.15	26.3
Option 2b	182.2	203.3	1.12	21.1

As the table above shows, **option 2a (registration-only model with MBIE as regulator)** has the most favourable benefit-to-cost ratio. However, the differences between the options are extremely minor and don't represent a meaningful differentiator in determining the optimal approach. At a high level, this results from three factors (discussed in more detail in the next section):

- The cost estimates provided by MBIE and REA for acting as regulator were similar, with the primary difference being in greater establishment costs identified by the REA.
- The relatively narrow difference in design between the two regulatory models means that regulatory and compliance costs, as well as benefits, are relatively similar.
- Where there are material differences in benefits and costs between the two regulatory models, those differences were of a broadly similar scale, so to a large extent 'cancel each other out'.



Summary of incremental costs and benefits – highest value option (registration-only model with MBIE as regulator)

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

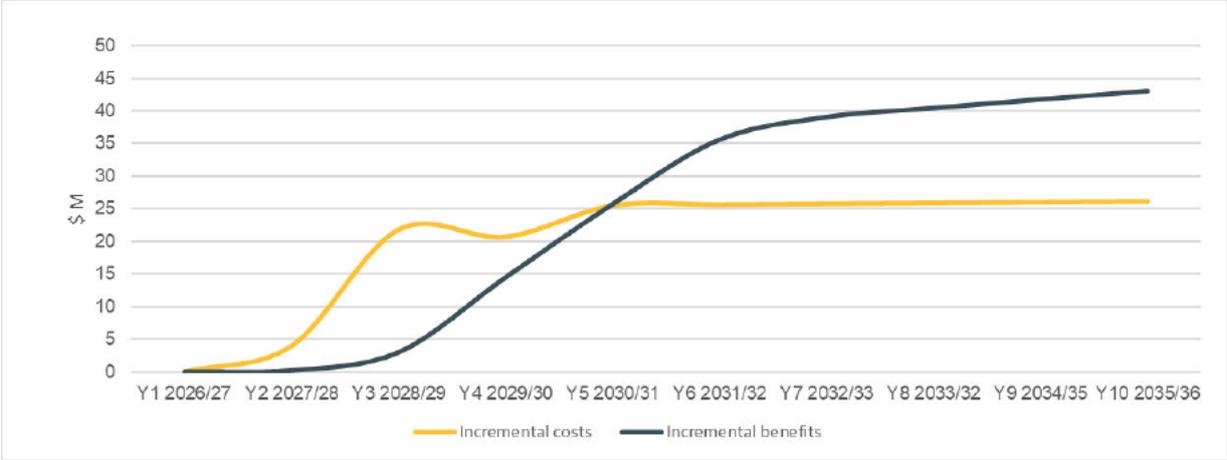


Table 2: Incremental costs of option 2, projected through FY 2035/36

Costs	Total (PV) - \$m	% of total costs
Sector costs	118.1	67%
Sector structure	84.6	48%
Sector compliance costs	33.6	19%
Regulatory costs	58.9	33%

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Estimated regulatory burden (as percentage of total value of RPM sector): **3.1%**



Table 3: Incremental benefits of option 2, projected through FY 2035/36

Incremental benefits	Total (PV) - \$m	% of total benefits
Avoided costs for RPM sector	52.4	26%
Avoided costs for residential property owners	96.1	47%
Avoided costs for residential property tenants	54.8	27%
Total incremental benefits	203.3	100%

Sensitivity Analysis

To assess the impact of changes in cost and benefit components within the analysis, we applied the sensitivity tests from the 2022 analysis to the registration-only model with MBIE as the regulator. The results are presented in Table 4.

Table 4: Sensitivity analysis – \$ million, present value, totals forecasted to FY 2035/36

PV - \$ millions	Costs	Benefits	NPV	BCR
Core analysis	\$177.0	\$203.3	\$26.3	1.15
Variable change				
Discount rate - 8% (Commercial Rate)	\$117.3	\$126.1	\$8.9	1.08
Cost variable changes				
Regulator (MBIE) costs - reduced by 20%	\$170.3	\$203.3	\$33.0	1.19
Regulator (MBIE) costs - increased by 20%	\$183.8	\$203.3	\$19.5	1.11



Min educational attainment – reduced % of market able to have equivalent learning recognised ¹ (increase cost)	\$177.3	\$203.3	\$26.0	1.15
Benefit variable changes				
Increase in avoided cost to sector ² (increase benefit)	\$177.0	\$210.1	\$33.1	1.19
Increase in avoided cost to property owners ³ (increase benefit)	\$177.0	\$207.4	\$30.4	1.17
Increase in avoided cost to tenants ⁴ (increase benefit)	\$177.0	\$209.2	\$32.2	1.18

Distributional impacts

Overall, our analysis indicates a net cost to the residential property management sector, in the order of thousands per year per RPM. On a per property basis this works out to be around \$47 per property per year (as an average across the forecast period to FY2035/36).

These net cost figures are small at a per property level, as well as at a rent per week level (the equivalent of about one dollar per property per week, if all net sector costs were passed to tenants).

Conclusions

On balance, the analysis indicates that a registration-only model with MBIE as regulator has the most favourable benefit-to-cost ratio. However, the differences in value between the various options were minor, reflecting the broad similarities between the two regulatory models and the similarity in predicted costs between the two potential regulators.

All models assessed have a modestly positive BCR. This result can reasonably be viewed as contributing to the case for establishing a regulatory regime for residential property management. Nevertheless, in light of the relatively narrow positive result, it is important that it be complemented by wider qualitative analysis.

In the 2022 analysis, the BCR for the then-proposed regime was 1.07. The result for the highest-value option here is somewhat higher. Different factors have contributed to increasing or decreasing the

¹ Licensed RPMs with recognised min educational attainment reduced to 15%.

² By increasing sector risk fall by half percentage – each year.

³ By increasing property owner risk fall by 0.01 percentage point – each year.

⁴ By increasing avoided costs to tenants by 0.01 percentage point – each year.



result, with a substantial portion of these changes offsetting each other. The two most notable shifts are:

- Regulatory administration and tribunal costs are estimated to be substantially higher in the updated analysis. While this does push down the calculated BCR, this is best seen as the result of more realistic costings being incorporated, rather than a genuine underlying reduction in value of proposal.
- Compliance costs are expected to be materially lower, largely due to the design shifts between the previous proposal and the current options being considered. While there was a corresponding reduction in estimated benefits, this is smaller than the estimated cost savings. This change represents an actual positive shift in the expected value of the proposal.

Uncertainty and its implications

The introduction to the previous CBA report included the following text:

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

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

This uncertainty with respect to benefits remains, and this update should be considered with that in mind. However, we would be cautious about drawing the potential conclusion that what is required is further quantitative analysis. In our view, absent unrealistic improvements in the evidence base, further study is unlikely to materially improve benefit certainty.

A closely monitored introduction of some form of regulation, with a strong focus on defining "quality of service" and measuring changes in this, is in our view the most realistic path to having an evidence-based estimation of benefits.

As noted in the text from the previous report, this uncertainty around benefits points to the value of arrangements that minimise regulatory burden. This is particularly important in the initial stages before the scale of any benefits can be validated. We note that the models of the regulation we have assessed here represent a material reduction in regulatory burden from that assessed in the 2022 report.

There may be scope to further reduce regulatory costs, and we encourage officials to identify these opportunities where possible. However, we also note that administrative costs, which cannot easily be reduced, now comprise 33% of total costs in the model as compared to only 18% in the 2022



assessment. There are likely to be limits on further opportunities to reduce compliance costs without eliminating those requirements – such as education – which are likely the source of many of the potential benefits from regulation.



Assessed schemes and approach

HUD is still in the process of developing detailed proposals for both the licensing and registration model and the registration-only model. Nevertheless, HUD was able to provide indicative key features for the purpose of assessment, which informed the analysis.

A summary of features of the two proposed models is provided as Table 5.

Table 5: Features of assessed schemes

Feature	License and registration model	Registration-only model
Regulated parties	Provisional RPM Licensed RPM Licensed RPM Organisation ⁵	
Registration and licensing	Licensing and public register for both individuals and organisations	Registration only for a single category
Professional entry requirements	18 years of age Fit and proper person test Completion of training (provisional – 2 days, licensed – 5 days) 6-month vocational experience for licensed RPM	18 years of age Completion of five days of training
Industry practice standards ⁶	Code of Conduct Minimum industry practice standards Annual review of client accounts	Same
Competency standards	Continuing professional development– 10 hrs per annum	Same
Complaints and disciplinary	Tiered system for complaints including use of a complaints committee and a Disciplinary Tribunal	Same
Offences and penalties	Maximum penalties for individuals (\$40,000) and organisations (\$100,000) for varying offences	Same
Regulatory management	Real Estate Authority or MBIE	

⁵ A 'Licensed Master RPM' was included in the previous licenced model but has been removed

⁶ Note change from previous model, which included requirements to maintain and audit trust accounts, and to maintain professional indemnity insurance



Cost recovery

Mixed model largely based on cost recovery from regulated parties

The two models appear, within the spectrum of occupational regulation, quite similar. This is particularly the case as the registration-only model includes very similar standards and penalties to the licensing model. As a result, we see two material differences that we expect to influence costs and benefits between them:

- The absence of a fit and proper person test under the registration-only model
- The absence of independent verification that standards have been met under the registration-only model.

We anticipate two consequences of these differences:

- A greater number of non-fit and proper persons acting as RPMs under the registration-only model.
- A reduction in the rate of compliance with standards under the registration-only model.

Key shifts from 2022 proposals

Additionally, we understand that the current policy proposal (still subject to change) removes the requirement for RPMOs to use trust accounts (a feature of the 2022 proposal), replacing them with separate client accounts. The key difference is that:

- Trust accounts are formal legal arrangements requiring strict fiduciary management, often involving more complex regulatory compliance
- Separate client accounts still require clear separation of client funds but offer a simpler and more flexible mechanism, without the legal and administrative burden of trust structures.
- In addition, annual audits of these accounts will not be required annually. Instead, audits will be conducted only at the discretion of the Registrar, enabling a more targeted, risk-based approach.

The proposal as modelled in 2022 included a requirement for RPMOs to have professional indemnity insurance. We are advised by HUD that this is not a feature of current proposals.

This has impacts on both costs and benefits as discussed below.



Notable changes in approach to costs

There are no fundamental changes to the methodology of estimating costs in the model.

Regulatory costs

A number of cost-related inputs have been updated, including receiving updated regulatory and tribunal administration costs estimates from MBIE, REA and the Ministry of Justice. Cost estimates provided by REA and the Ministry of Justice are substantially higher than those provided in 2022:

- REA regulatory administration costs are approximately 70% higher
- Tribunal costs are approximately 150% higher than those previously applied if MBIE is the regulator and a new tribunal established
- Tribunal costs if REA is the regulator and the REA disciplinary tribunal can be expanded are approximately twice those previously applied.

It is our understanding that these increases are primarily the result of more realistic estimates of actual costs likely to be incurred. We note that the adjusted cost estimates from REA bring them more closely in line with those estimated by MBIE, whereas in 2022 they were substantially lower.

Nevertheless, these adjusted costs represent a material change to the updated model. REA has indicated the key drivers of the increased costs are:

- An increase in estimated personnel requirements (from 27 to 34 FTE) reflecting the differences in additional resource and capability required to deliver the proposed model, which has some key differences from the REA's existing real estate agent regime (upon which the 2022 proposal had been largely modelled).
- Complaint volumes having increased by 40-50% since 2022.
- An allowance for contingency, given that key parts of the regime detail remains unknown. The 2022 estimate had not included a contingency.
- Inclusion of additional costs including additional Board fees, increased accommodation, printing/stationery, travel + accommodation, audit costs and website.

It should also be noted that MBIE identified few establishment costs in their estimates, but this reflects uncertainty about what might be required rather than a view that these costs will not eventuate.

Compliance costs

As discussed above, we anticipate lower rates of compliance with standards under the registration model, given the absence of validation of meeting those requirements. A review of relevant literature did not identify any studies that support an estimation of the magnitude of non-compliance with lighter-touch occupational regulation. However, studies on fields where formal licensing has been introduced to formerly self-regulating professions (for example, midwives) suggest an overall uplift in consumer benefits of between 8% and 15%. We have conservatively assumed an 8% reduction in



overall compliance across all standards (including areas such as use of client accounts, educational standards, continuing professional development) under the registration-only model versus the licensing model.⁷ To reflect this lower compliance, we also apply an 8% compliance cost reduction factor to the registration-only model.

The differences between the current options and the model previously assessed have materially reduced some expected costs. The elimination of the 'licensed master' category from the licensing model has a consequential reduction in average level of education and CPD required by RPMs under this model, and thus also reduces estimated costs.

The removal of requirements for audited trust accounts and indemnity insurance necessitates the removal of financial and time-based compliance costs associated with those requirements. We do not consider that the requirement for client accounts creates a material additional compliance burden. We note that the previous analysis did not include costs for account set-up, only for auditing and this treatment remains consistent with that approach.

Adjusted approach to benefits

As with costs, there are no fundamental changes to benefits typology or estimation methodology.

For the licensing model, we have assumed no change in the magnitude of benefits as a result of the most minor changes in the scheme design as compared to the version previously assessed.⁸

However, we do consider that the shift away from audited trust accounts and insurance requirements is likely to reduce benefits. Specifically, benefits associated with reduced costs (modelled as a reduction in risk-premium) for both the sector and property owners should be smaller. We do not consider that these policy shifts would have an impact on the benefits accruing to tenants.⁹

In the previous model an expected risk premium to owners of 1% was expected to reduce to 0.7% as a result of policy shifts. We now reduce this to 0.73% over several years. Likewise the risk premium for the sector was expected to reduce from 15% to 10%. We now reduce this to 10.5%. This represents an approximately 10% reduction in the monetised value of each benefit.

This reflects the view that the changes would have a material impact on confidence and may, on the margin, contribute to avoiding the most egregious behaviours. Nevertheless, those areas most strongly associated with quality improvement as a result of occupational regulation such as learning requirements, improvement information and threat of disciplinary action remain in effect and therefore the reduction in benefits is not expected to be large.

⁷ This 8% is applied to requirements to meet standards over and above the status quo. For example, if 20% of RPMs already use trust accounts, we assume 8% of the remaining 80% (6.4%) will not under the registration-only model.

⁸ Arguably the elimination of the licenced-master category should manifest in some reduction in benefits, however there is no clear basis for estimating this and we anticipate that any reduction would be very minor.

⁹ Improved housing condition, improved housing temperature and reduced discrimination.



We do anticipate a reduction in relative benefits associated with the registration-only model.¹⁰ Firstly, as outlined above, we expect that the reduced compliance with standards will lead to a proportional reduction in benefits realised (8% reduction), as achieving these standards is a primary vector through which benefits are expected to eventuate.

Secondly, we expect that the higher level of non-fit and proper persons acting as RPMs relative to the licence model will also reduce benefits, over and above reduced compliance. We assume a conservative 2.5% reduction in benefits as a result of this effect. This could broadly be seen as assuming that a similar proportion of non-fit and proper persons would continue to act as RPMs under the registration-only model (roughly 100 RPMs on current industry numbers).

¹⁰ We reviewed relevant literature on the quality impacts of occupational regulation to determine if there was any generalisable expected reduction in benefits between licensing and registration-only models. Overall, there is relatively little evidence quantifying quality impacts from occupational regulation of any kind. We were not able to identify any research that estimated differential impacts on quality between various forms of occupational regulation in a way we could apply here.



Appendix 1 – Selected updated inputs

Input	Previous value	Updated value	Notes
Number of RPMs	3,700	3,800	Figure remains uncertain, small increase allotted for growth and consistent with a HUD high-level range of 3,500-5,000 and an REINZ range of 3,000-4,000.
Number of properties managed by RPMs	249,0000	232,400	55% of private residential rental properties.
Qualification costs	\$300-\$1700	\$300-\$1000	Reflects removal of Master category
Cost of CPD	\$350	\$398	We assumed an 8% reduction for the registration-only model
Time cost per hour for compliance activities	\$36	\$47.4	Based on Inland Revenue compliance time cost analysis.
Existing levels of trust account usage	5%	20%	Additional intelligence and review on publicly available materials from property management companies led to a reassessment of this assumption.

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