

Government's COVID-19 financial support for the property sector

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The government has announced a NZ\$16 billion+ economic stimulus package to help cushion the economic effects of the COVID-19 outbreak, and minimise the financial harm to both the wider economy and individual participants in it. Most of the package focuses on maintaining wages and market liquidity, but in this newsflash we focus on those measures which directly relate to the property sector.

As with all things related to COVID-19, these are fast-moving announcements, with only high level details announced first, and the real detail to follow. That is where we are with these announcements, and we will update you on these as soon as information is available.

What we do know so far about property-related measures is:

Temporary mortgage repayment holiday for affected borrowers

This package has been agreed jointly by the government, Reserve Bank and retail banks in principle. Finance Minister Grant Robertson hopes that the 6 month interest and principal repayment holiday will mean people won't lose their homes as a result of the economic disruption caused by the virus, and provides relief to affected smaller businesses. Specific details are still being finalised and agreed, with individual banks to make these details public in the coming days. This will provide financial support to personal borrowers as well as the vulnerable small/medium enterprise sector, who are expected to bear much of the economic fall-out from COVID-19.

Restoration of tax deductibility for depreciation on commercial buildings

The government has "permanently" reversed the 2010 decision that depreciation on commercial buildings would no longer be tax deductible. This outcome has been something for which the property council has strongly advocated in recent years, and will provide a significant and widespread economic benefit. Although there is no direct connection between this announcement and the COVID-19 outbreak, this is an easy way to provide financial support to large corporates and commercial landlords, who will all be experiencing financial impact. The permanent nature of this announcement suggests that it was coming in any event, but was accelerated to form part of the COVID-19 response package. This change applies from 1 April 2020. There is no sign of a similar concession being made in relation to residential buildings, and extending this financial relief to residential landlords.

Temporary ban on residential rent increases

Recognising that rent can comprise a significant proportion of household incomes, the government has temporarily frozen residential rents, which will provide relief to some of New Zealand's 1.5 million tenants. There is a suggestion that this will apply even to landlords who had already given notice of rent increases yet to be implemented. No similar restriction has been discussed in relation to commercial rents, which are subject to review on agreed dates.

Further extension of restrictions on no-cause terminations of residential tenancies

Currently landlords can terminate a residential tenancy without reason on 90 days' notice. Further details of this measure have yet to be announced. There is no clear connection between this measure and the COVID-19 situation, and this measure is something that the government has been discussing for some time. It will be somewhat controversial, as this proposed measure attracted strong opposition in the property sector during previous consultation exercises. The government may consider that this measure simply gives tenants greater protection and certainty during what is likely to be a very challenging period of time.

These announcements indicate that the vitally important property sector has not been overlooked by the government in the wider economic relief measures announced to reduce the effect of the COVID-19 outbreak and the recovery. These measures will protect vulnerable parties and provide financial relief across the property sector.

Reflecting on the government's announcements, there is no direct support for larger corporates – both landlords and tenants - beyond the welcome depreciation relief for property owners. We only need to look back at recent corporate failures and poor results to see that size is no guarantee of ongoing viability. Care needs to be taken that the larger players in the market are not overlooked; their size does not mean that they are immune to the effects of COVID-19, and their failure could have very significant adverse economic effects. There is little relief or assistance for large scale enterprises, which may need to be considered in any subsequent announcements. Overseas governments have had to announce several tranches of financial relief measures, so there may be further measures announced in the coming days and weeks.

Dentons Kensington Swan will bring you further updates on these property measures as they become available, and on any emerging property issues arising from the wider COVID-19 situation. As we saw following the Canterbury earthquakes, the unique nature of the events that are unfolding highlighted previously-hidden issues in standard form leases which needed addressing. It remains to be seen what similar issues COVID-19 throws up and how the industry responds. We will keep across these too and offer guidance when there is clarity.

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