

# NZ Residential Rental Market March 2016

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## Technology and Rental Housing

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**DATA SOURCE** This publication has been developed from private sector rental data supplied by the Ministry of Business Innovation and Employment (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate Institute and Quotable Value NZ statistics.

There is little doubt that over the last 20 years computer technology has improved the efficient operation of the rental housing market in New Zealand. The availability on the Internet of the reliable and up to date market rental data from the government Bond Centre, following the introduction of the Residential Tenancy Act, has brought greater transparency to the private sector rental market and reduced search costs for both landlords and tenants. In parallel with improved access to government rental data the property management divisions of real estate companies and “Trademe.com” have developed web sites showing properties available to rent. These web sites typically have a search facility allowing users to narrow down their search by locality, rental level and type of rental property. Most of these sites also show still photos and some have videos of the properties for rent. This facility enables prospective tenants to quickly narrow down a list of possibilities without leaving their computer keyboard, or smart phone. Some sites also contain additional data including school zoning and local crime statistics. The free internet mapping applications on Google Earth allows users to observe properties from both a birds eye and street view. The problems of identifying bad tenants and bad landlords also lends itself to private websites that provide feedback to subscribers.

### Airbnb

Computer technology has also made it possible to improve market efficiency for short term tenancies, such as those not covered by the Residential Tenancy Act. One of the leaders in this space is “Airbnb” an internet based company which was started in 1998 by two San Francisco entrepreneurs. Airbnb is now operating in over 190 countries with some 800,000 properties. The web site Stuff reported in 2015 Airbnb had some 7000 properties on their books for New Zealand with the average property generating around \$7,000 per year. The idea is to connect travellers, via a user friendly web site, with residential property owners who may have a spare bedroom. Payment is guaranteed by Airbnb who charge fees starting at 3% for the tenant and 3% for the landlord. In New Zealand Airbnb tends to compete for local and overseas travellers who might otherwise stay in Hotels and Motels. The potential advantage of Airbnb is customers get to stay in a New Zealand house and receive personalised attention. There may also be a cost advantage compared with Hotels and Motels. Reviews of customers experiences with Airbnb are available on a variety of web sites.

### Book a Bach

Book a Bach is a local web site where the idea is to enable the owners of second homes to rent them out for periods when not required by the owners. In February 2016 some 10,500 New Zealand properties were listed on the Book a Bach web site.

Often these second homes are attractively located near a beach, lakeside, or in the towns and cities. Property owners pay either an annual subscription of \$229 or pay per booking at the rate of 9% of the rent. The rent money is handled via a trust account released after the tenant leaves the property. More intensive utilisation of holiday homes offers a win/win solution for all three parties. Owners receive a rental cash flow that can be applied to maintain their houses. Renters get to stay in houses they normally would not have access to. The web site owners make money from the subscriptions and have off loaded most of the administration and liability to the property owners. Of course there are risks renting a valuable house to some one you don't know and a security deposit or bond may be required along with references. Part of the skill in property management is to talk to the prospective tenant before letting the house. Red lights may start to flash if the proposal is for a group of young folk wanting the house for a weekend party! Some complaints have been registered by motel operators who argue they are losing business to both Airbnb and Book a Bach because the private property owners do not face the same regulatory framework as commercial operators and may not be paying the appropriate level of taxation. The current tourist boom has muted the unfair competition complaints of the motel owners as many of them are now enjoying very good occupancy rates. From an economic viewpoint better utilizing holiday homes is a good thing because it takes some of the pressure off alternative holiday accommodation. Furthermore once renters have enjoyed a holiday house in one location they may be encouraged to explore other locations offering short term holiday house rentals.

### Hardware Applications

Most private sector rental housing in New Zealand has originated from the conversion of owner occupied to rental housing in the second hand market. Building new rental housing is economically challenging because of the high building costs inherent in traditional bespoke building methods. Does computer technology offer a cheaper alternative? Yes, seems to be the answer. Many modular building components are currently being assembled in factories using the cutting and measuring precision offered by technology such as lasers. The next obvious step is follow the automobile industry and use robots to increase productivity in the factories. However, due to our relatively small population and isolation New Zealand does not enjoy economies of scale and is unlikely to be a leader in automating the building process. This means for a time it may be necessary to import flat packed modular housing units. The development of large three dimension printers has made it possible to print most of the components of houses. This is already being done in several countries using cement mix, plastics, carbon fibre and oils as the building materials.

## Impact of Technology on Property Values

Computer based technology using housing components assembled in a factory by robots has the potential to significantly reduce building costs by reducing labour costs. How might this change influence the value of existing rental housing? The answer to this question is complicated because it all depends on the supply of and demand for rental housing at specific locations. The income generated from existing rental housing is tied both to the quality of the improvements and to the properties location. This means while the replacement cost of an older building may reduce due to new technology the overall value of the property may not reduce if the land component continues to increase. Most likely reducing building costs will provide a windfall gain for both existing building owners and developers because they can generally exert more market power on rents than tenants. Thus improvements in technology leading to reduced building costs typically get capitalised into land values.

## Rental Levels

The table at the top of the right hand column shows rental changes over the last year and the last quarter, for the main urban centres, excluding Queenstown. The national level of median rent for February 2016 was \$380 per week, a new national high. Over the last twelve months the national median rent increased by \$15 per week or 4.1%. The largest percentage increases in market rents were typically outside Auckland, possibly because more Aucklanders were moving to localities such as Tauranga, Napier and the Wellington region.

On an annual basis the only city showing a decline (-4.7%) in the median rent over last twelve months was Christchurch.

| Median Rents     | Feb-15 | Nov-15 | Feb-16 |
|------------------|--------|--------|--------|
| Whangarei        | 290    | 320    | 320    |
| North Shore      | 500    | 520    | 522    |
| Waitakere        | 437    | 450    | 450    |
| Auckland         | 450    | 462    | 485    |
| Manukau          | 450    | 480    | 460    |
| Papakura         | 390    | 430    | 440    |
| Hamilton         | 340    | 330    | 350    |
| Tauranga         | 362    | 380    | 395    |
| Rotorua          | 265    | 270    | 280    |
| Gisborne         | 267    | 270    | 280    |
| Hastings         | 290    | 290    | 300    |
| Napier           | 290    | 320    | 320    |
| New Plymouth     | 310    | 340    | 350    |
| Wanganui         | 200    | 217    | 220    |
| Palmerston North | 280    | 290    | 290    |
| Kapiti           | 360    | 330    | 370    |
| Porirua          | 370    | 330    | 385    |
| Upper Hutt       | 290    | 300    | 300    |
| Lower Hutt       | 300    | 330    | 340    |
| Wellington       | 430    | 400    | 450    |
| Nelson           | 330    | 340    | 330    |
| Christchurch     | 420    | 380    | 400    |
| Dunedin          | 300    | 322    | 310    |
| Invercargill     | 220    | 220    | 230    |
| All NZ           | 365    | 360    | 380    |

## Massey University Property Foundation

The Foundation is established to sponsor research and education in property related matters in New Zealand. Funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has established a Real Estate Analysis Unit to operate out of both Massey University's Palmerston North and Albany campuses.

## Massey University Real Estate Analysis Unit

The primary objective of the Massey University Real Estate Analysis Unit (MUREAU) is to provide reliable property information to the property industry, the land related professions and the public.

The Director of MUREAU is Professor RV (Bob) Hargreaves. MUREAU also offers a consulting service for individual clients. MUREAU publications available on the internet are:

- 1 The Home Affordability Report (Quarterly)
- 2 NZ Residential Rental Market Report (Quarterly)

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