

NZ Residential Rental Market

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Renting for Life Increasing

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DATA SOURCE This index has been developed from private sector rental data supplied by the Department of Building and Housing (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.

New Zealanders typically view home ownership as an important part of their life aspirations while living in our property owning democracy. Home ownership is generally thought to provide a more desirable family environment than renting because it provides greater stability when bringing up children and integrating into local communities. For the majority of younger families home ownership is still an achievable goal, albeit at an older age than when their parents purchased their first home. But there is no doubt that the goal of home ownership has become more difficult over the last two decades. Under current policy settings more families will be renting for life. Census figures show home ownership peaked at 73.8% in 1991 and has been falling ever since. In 2013 the ownership rate was 64.8%. The highest rates of home ownership are in the country areas and the lowest rate in parts of Auckland City where renter households now outnumber owner households. There are a number of reasons for this situation. Perhaps the fundamental reason is that wealth distribution has become less egalitarian than it was before the “Rogernomics” restructuring reforms of the 1970s.

Increased wealth disparity means the reason most renters are not switching to ownership is they have difficulties assembling a deposit, a situation exacerbated by the recent Reserve Bank loan to value regulations. When prospective first home buyers eventually save a 20% deposit they still have debt servicing challenges to overcome because New Zealand house prices are very high in relation household incomes. In recent years the Economist magazine has consistently rated New Zealand house prices as amongst the most overvalued in the world. Within New Zealand the move from renting to buying a house is particularly difficult in Auckland and to a lesser extent in the other main cities. Younger working age New Zealanders now form new households later and are likely to be more heavily in debt (student loans) than their parents generation.

Data from the last three census periods (2001,2006,2013) shows the slippage in the percentage home ownership rates across all age groups. According to Statistics NZ the greatest fall 2001-2013 (11.6%) was in the 30-39 age group. Ownership for households in the over 55 to 62 age group is still over 70% and for those 63 and over close to 75%. Thus around 25% of households in the older age group are now renting for life and this percentage will continue to increase unless there are policy interventions to make ownership easier for the younger age groups.

From a public policy perspective there is nothing inherently wrong with an increasing percentage of renter households in the population, provided this does not mean an increased burden on the government when people retire

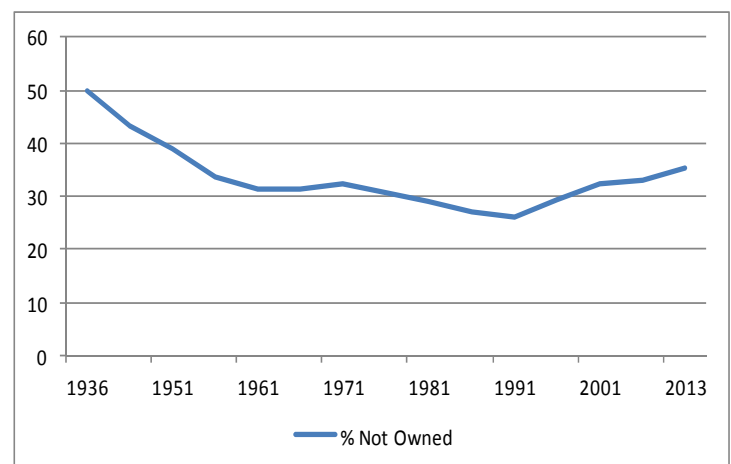
One of the benefits of home ownership is the ability to build up equity as a table mortgage is repaid over time and as house prices increase. This is a form of compulsory saving and gives the retiring owner the ability to extract cash by downsizing houses in the same town or by moving to a cheaper locality.

Renters do not have the same ability to use a mortgage as a compulsory form of saving and unless they are disciplined savers may find it difficult to maintain a reasonable standard of living once they retire.

Of course the counter argument is the population of renting for life households is high in both Germany and Switzerland and in both nations retirees appear to cope well financially. Where New Zealand and many English speaking countries differ from the Germanic model is that the population of late in life renters typically come from the less affluent group of households.

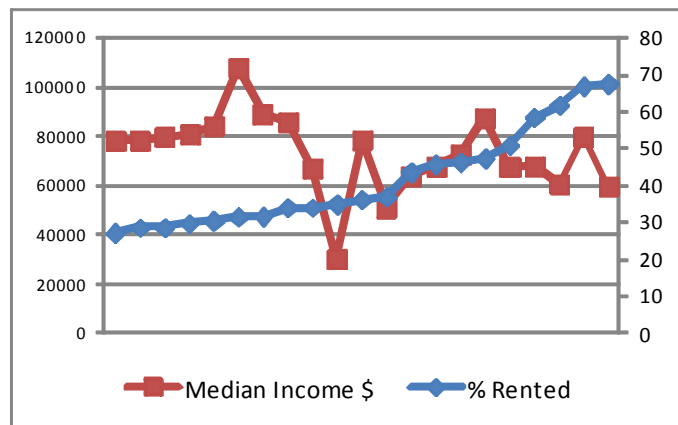
Long Term Rental Trends

The chart below shows the percentage of New Zealand households where the housing is not owned directly or held in a family trust. By and large these households form the renting population, but a small proportion do not pay rent. The data is taken from census periods 1936-2013. Interestingly renting steadily declined after 1936 when there were government programmes to incentivise home ownership. One such example was the below market interest rate mortgage loans available from the State Advances Corporation (SAC) to ex servicemen. Later the SAC loans were tilted towards encouraging new house building rather than loans on existing houses.



Auckland Renters

The chart below shows the percentage of rental houses in blue (right hand scale) and the median family income in red (left hand scale) for the 21 local wards in Auckland. The population of these local wards range from 929 in Great Barrier to 127,125 in Howick. As expected the percentage of rental houses rises as incomes fall. According to the 2013 census five local ward areas (led by Mangere and Waitemata) had more than 50% rental housing with average across the city being 41%. Waitemata includes the Auckland central business district where there is a high percentage of apartments rented by a young population. Conversely Mangere is mainly single family homes with large numbers of state rental houses.



Rental Levels

The national level of rent in November 2014 was \$350 per week. This represented a \$10 per week (3.0%) increase in the national rent over last quarter. Over the last year (November 2013-November 2014) the national level moved up by \$10 (2.9%). The most significant annual percentage increase in rents was in Auckland City with an average increase of approximately 6%. Within Auckland the greatest percentage upward movement was in the Papakura area. In Christchurch the annual median rent increased by 4%. Apart from Auckland and Christchurch rents in the rest of the country were generally either flat or slightly down on an annual basis. A snapshot of rents itemised by the main urban local authorities is shown in the table in the right hand column.

Median Rents	Nov-13	Aug-14	Nov-14
Whangarei	290	285	300
North Shore	460	460	475
Waitakere	390	410	412
Auckland	420	435	440
Manukau	420	430	440
Papakura	350	415	400
Hamilton	320	300	320
Tauranga	340	340	350
Rotorua	255	255	260
Gisborne	260	260	250
Hastings	280	285	275
Napier	300	300	300
New Plymouth	320	330	300
Wanganui	210	200	197
Palmerston North	280	280	290
Kapiti	312	315	320
Porirua	352	350	350
Upper Hutt	300	287	270
Lower Hutt	330	290	310
Wellington	390	400	395
Nelson	310	320	305
Christchurch	375	395	390
Dunedin	300	260	310
Invercargill	220	220	217
All NZ	340	340	350

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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