NZ Residential Rental Market

June 2015

Quarterly Survey Volume 18, Number 2

The Renting Generation

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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.

The book "Generation Rent-Rethinking New Zealand's Priorities" (2015) has highlighted the difficulties young people have in achieving home ownership, particularly in high priced Auckland. The authors (Shamubeel and Selena Eaqub) argue present policy settings are increasing the divide between the haves (home owners) and have nots (renters). They go on to describe the "broken" Auckland housing market and then set out a ten point plan to achieve better housing outcomes for renters and first home buyers.

Housing Supply

There is likely to be general agreement with the point the Equabs make about increasing housing supply in high demand areas. However, it is less clear what type of new housing should be prioritised. Current policy settings encourage market solutions, but recent history shows the market solution is often to build large houses with expensive fittings because these are the most profitable for developers. This results in a "filtering" effect since large new houses are typically purchased by existing home owners who are trading up. Some of the homes vacated by those trading may be purchased by property investors and converted to rental accommodation. Thus there can be a net gain of rental accommodation, but sometimes two smaller "plain vanilla" houses could have been built for the cost of one large house.

Unfortunately market led housing solutions can take a long time to become effective. This is partly due to the cyclical nature of housing and the inability of the construction sector to adjust quickly to changes in demand. For example, overbuilding occurred towards the end of the 2002-2007 property boom and many builders left the industry, resulting in the present housing undersupply.

The Productivity Commission Report

The June 2015 draft report "Using land for housing" by the Productivity Commission emphasised the complexity of the current problems relating to housing supply. The authors clearly do not think "market solutions" are going to solve the undersupply of land for housing, particularly in Auckland. They point out the difficulties building companies have in assembling land for the large subdivisions capable of providing builders with economies of scale. Furthermore they identify the large capital gains land owners can achieve when their land is zoned for housing. They advocate market intervention in the form of an Urban Development Authority (UDA) with the powers to compulsorily acquire land. Interestingly the establishment of an UDA would have similarities to the government intervention in the 1950's and 1960's where the Ministry of Works acquired land for both State and private sector housing. Setting up an UDA may be a step too far for the present government, but it is hard to argue against the social equity behind this concept.

Institutional Investment Possibilities For Rental Housing

The establishment of partnerships and other institutional investment vehicles is one possible strategy that could make investment in residential rental accommodation more attractive to individual investors. Such models already exist in the commercial and rural property sectors of the New Zealand market and continue to attract investors. Overseas examples include institutional investment in residential rental housing. The New Zealand super fund managers have also indicated they are looking at residential investment in some form.

There is well over $100 billion held in bank term deposits in New Zealand and some of this money could provide the source of capital for a new investment vehicle. Current bank deposit interest rates are low and significant numbers of investors are likely to be looking for both portfolio diversification and higher yields. This type of investor may lack the capital, property skills and confidence to invest in individual residential rental housing.

Rather than competing with existing property investors for existing second hand housing the new model would focus on purchasing new multi-unit housing, such as might be found with a low rise apartment block. The institutional investment vehicle would deal directly with developers and provide the developer with the guaranteed purchaser usally required by lenders before allowing a project to proceed. Property management could be contracted out until the investment vehicle held a large enough portfolio to justify in house management. The strategy of buying new multi unit apartment buildings would minimise maintenance costs and provide flexibility to rebalance a portfolio should the owners eventually wish to sell some of the apartments off on unit titles.

Why hasn't this idea already been adopted? Possibly because the net yields on residential rental properties in Auckland are currently about the same as after tax returns on bank deposits. Bank deposits are perceived as being safer than housing investment. Of course the same net yield argument can be advanced against rural property investment vehicles. However once increases in rental yields and property values over time are incorporated in the rural and housing models then property investment looks much more attractive.

It is anticipated the new investment vehicle would concentrate on Auckland and take advantage of new building opportunities in or near the central business district and along the designated transportation corridors. Nationally the demand for good quality rental accommodation continues rise due to a fall off in the home ownership rates and an increasing population. Rental demand is accentuated in Auckland where renters already exceed owners in a number of suburbs.

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Rental Statistics

Recently there has been some debate in the media about the level of rental increases over the last year. The debate was sparked by the website TradeMe releasing data to the effect rents had risen nationally by 6.3% over the year ending April 2015. Housing Minister Nick Smith challenged the TradeMe figures saying the statistics he was looking at showed a smaller increase (2.8%). Minister Smith used the same statistics that are used in this publication and originate from the tenancy bond data collected by the Ministry of Business, Innovation and Employment.

So why is this debate important and which set of data should we use? It is important because current rental information influences new rent settings and are part of the Consumer Price Index. Several points need to be made. Firstly, the TradeMe figures are asking prices and not necessarily the actual rent being achieved, just in the same way asking prices for houses are not the selling prices. Rents are negotiable, particularly in areas of low demand. Certainly there is a reasonably strong correlation between asking rents and market rents but there is still a degree of error. Secondly, while the bond centre rental figures do not capture all new rental data they are considerably more comprehensive than the TradeMe data set. TradeMe is just one of the vehicles for advertising available residential rental housing. Many real estate companies with property management functions use their own websites to advertise houses for rent and may choose not to use TradeMe. Similarly private landlords may not need to advertise at all in areas of high demand.

Rental Levels

The national level of median rent for May 2015 was $360 per week. This represents a $5 (1.3%) per week reduction in the national rent over the last quarter. Not too much can be read into this small decline which may be just a seasonal effect. Over the last year (May 2014-May2015) the national median rent increased by $10 per week (2.8%).

The annual pattern of rental changes by city has parallels to the housing market in that demand pressure is greatest in the Auckland province. Conversely rents in Christchurch appear to have levelled out now the rebuilding programme is well under way.

	May-14	**Feb-15**	**May-15**
Whangarei	290	290	300
North Shore	490	500	500
Waitakere	410	437	440
Auckland	440	450	470
Manukau	420	450	450
Papakura	380	390	430
Hamilton	310	340	330
Tauranga	340	362	365
Rotorua	250	265	270
Gisborne	262	267	285
Hastings	295	290	280
Napier	300	290	310
New Plymouth	320	310	330
Wanganui	200	200	220
Palmerston North	280	280	260
Kapiti	350	360	350
Porirua	357	370	360
Upper Hutt	285	290	290
Lower Hutt	310	300	335
Wellington	400	430	399
Nelson	320	330	330
Christchurch	390	420	395
Dunedin	280	300	270
Invercargill	222	220	230
All NZ	350	365	360

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.

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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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