

NZ Residential Rental Market

December 2015

Quarterly Survey Volume 18, Number 4



The Rental Housing Stock

Prepared by
Bob Hargreaves*

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 National Picture

As the number of renter households has increased over time there have been changes in the composition of the stock of private sector rental dwellings. Traditionally rental dwellings largely consisted of three bedroom houses situated in the suburbs. Later purpose built rental “sausage” flats were built in the towns and cities and then came apartments. At first apartments were often located in converted office buildings and as such confined to the central part of larger New Zealand cities. More recently purpose built multi-level apartment buildings have become more wide spread across the urban landscape. The first chart below takes snapshots in August showing the percentages of private sector rental dwellings, houses, flats and apartments from 2002-2014.

The most notable feature of the changes over time in the rental



dwelling stock is the decline in the percentage of rental flats and the growth in rental apartments. The absolute and percentage decline in flats is possibly due to both the conversion of flats to individual owner occupancy and relatively low returns to landlords on a risk adjusted basis. Nationally apartments now comprise around 13% of the rental housing stock. Houses continue to dominate the rental housing stock with both an increased percentage and absolute increase over time. The growth in renter households is quite widespread in the less affluent suburbs of urban New Zealand. As first home buyers have struggled to buy a house property investors have acquired more houses. The houses being rented are largely those second hand houses converted from owner occupancy with only a very small percentage of new builds. From an investment viewpoint rental houses typically have more land per unit than flats and apartments. This means potential capital appreciation is mostly related to the land component because over time buildings depreciate. Thus in areas being converted to a more intensive use houses may offer subdivision and infill opportunities.

Auckland

The chart below shows estimated changes in the percentage composition of the rental housing stock for Auckland city from 2002-2014. (The boundary used is the old Auckland city boundary before the larger “super city.”) By 2006 there were more apartments being rented than houses and this trend continued through to 2014. Overall rental affordability is clearly an important factor in the growth of rental apartments. This is because the weekly rent is only one factor to consider. Most apartments are located close to the central business district and renters can often walk to work, or the entertainment hub, thus avoiding both time and monetary commuting costs. Additional savings could be made by apartment renters not needing to own a car. Within building heating and lighting costs also favour apartments renters due to smaller and better insulated dwellings as compared to houses.



There are also strong demographic and social trends favouring the expansion of rental apartments in Auckland city. Auckland is going through a period of population growth and is the favoured New Zealand destination for new immigrants and returning nationals, many of whom have come from countries where apartment living is the norm. Also there is a large group of New Zealand and overseas students living in rented accommodation near the central city tertiary educational institutions. By international standards the cost of home ownership in Auckland is very high and in a number of inner city suburbs there are now more rental dwellings than owner occupied dwellings. The Auckland Unitary Plan has recognised the need to intensify residential land use in a number of locations. This will mean replacing the existing stand alone houses with apartment buildings. Certainly there will continue to be opposition by NIMBYs (not in my back yard) to the land intensification plan but in the end most will owners sell if the price is right.

Wellington

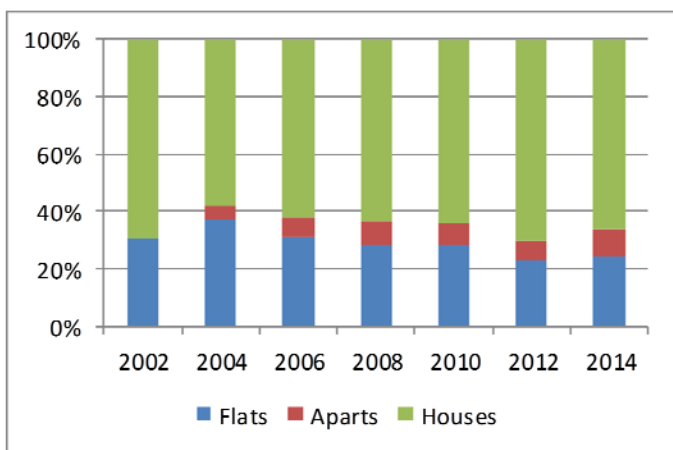
The changing mix of rental accommodation in Wellington from 2002-2014 has a number of parallels to the Auckland situation described on the first page. The first chart below shows a significant decline in the percentage of rental flats, a substantial increase in the percentage of rental apartments and a relatively stable percentage of rental houses. The growth of rental apartments in Wellington seems likely to continue since the physical constraints of the hills and harbour limit buildable land supply. This constraint keeps land values high in suburbs near the central business area.

Napier



The next chart shows the estimated mix of Napier's rental dwellings 2002-2014. Since 2002 rental apartments have also appeared in a number of provincial cities, including Napier. In the case of Napier apartments tend to be sited near the Hawkes Bay seafront and central business area.

Rental Levels



The table in the right hand column shows the median rents for the main NZ cities over the last quarter and over the last year. Over the last year the national median rent increased by 2.8% to \$360 per week. Upward rental increases during the year were mainly driven by rental volumes in the Auckland region, which comprise around 30% of national transactions. The Auckland region saw an approximately 8% annual increase in weekly rents. Tauranga rents were also up by 8.5% over the year. The most significant rental decrease during the year was in Christchurch where rents fell by 2.5%, indicating supply finally catching up with demand.

Median Rents	Nov-14	Aug-15	Nov-15
Whangarei	300	305	320
North Shore	475	520	520
Waitakere	412	450	450
Auckland	440	460	462
Manukau	440	460	480
Papakura	400	430	430
Hamilton	320	320	330
Tauranga	350	375	380
Rotorua	260	260	270
Gisborne	250	270	270
Hastings	275	300	290
Napier	300	307	320
New Plymouth	300	330	340
Wanganui	197	220	217
Palmerston North	290	280	290
Kapiti	320	325	330
Porirua	350	370	330
Upper Hutt	270	350	300
Lower Hutt	310	310	330
Wellington	395	400	400
Nelson	305	320	340
Christchurch	390	385	380
Dunedin	310	280	322
Invercargill	217	220	220
All NZ	350	360	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.

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)

Inquiries concerning this publication and other research papers prepared by MUREAU may be addressed to:

MUREAU
 School of Economics and Finance
 Massey University, Private Bag 11.222
 Palmerston North
 Telephone: +64 6 356-9099 ext: 84064

<http://economics-finance.massey.ac.nz/publications/property>