

NZ Residential Rental Market

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The Pros and Cons of Longer Tenancies

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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.

Property Rights

The gradual reduction in the rate of home ownership in New Zealand over the last thirty years is of concern to some policy makers. One reason for this concern is because home ownership is said to offer a more stable family environment than renting. The insecure nature of renting arises since under the residential tenancies legislation landlords can move tenants out and reclaim a property at 42 days notice for their own or an employee's use, or if the property has been sold. Even when not wanting the property for their own occupancy landlords still only require 60 days notice before moving tenants out of a rental property, with no reason having to be given.

From time to time it has been suggested that longer and more secure residential tenancies would increase the desirability of renting, particularly for families who cannot afford the ownership option. A July 2014 paper published by the NZ Institute of Economic Research (The Home Affordability Challenge) refers to several European rental tenure systems offering renters reasonably secure forms of long term tenancies. Of course short term tenancies are generally quite suitable for the younger population of renters who move frequently and do not want to commit to long term arrangements.

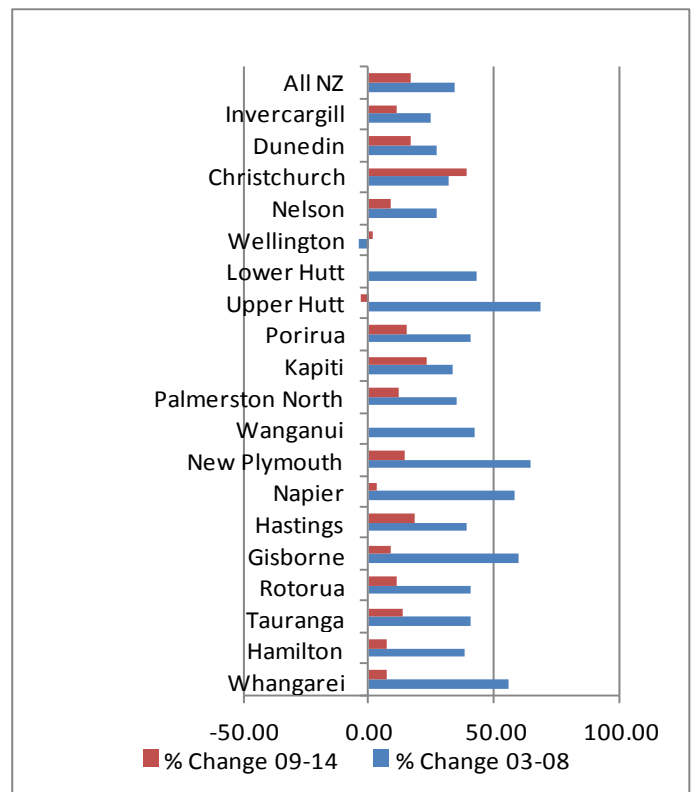
While increasing tenant property rights may well be an attractive proposition for the growing numbers of renters it is likely to result in the diminution of the landlords property rights, unless new legislation is carefully balanced to respect existing property rights. For example, the historical British experience of residential tenancies strongly in favour of tenants, sometimes over several generations of renters ("tied" properties) was these typically sold at substantial discounts compared with "untied" properties. Any changes to residential tenancy legislation having a negative effect on renter house values is likely to be resisted by landlords and may result in reduced private sector investment in rental housing.

Perhaps part of the solution towards long term renters achieving more secure residential tenancies is to adapt the residential tenancies legislation to incorporate some of the practices used with commercial property leases in New Zealand. A tenancy might be for a defined term of, say, 9 years with three year rental reviews and a right of renewal for a further period. To compensate for less frequent rent reviews rents would be based on a percentage of the property value. Properly structured longer term periodic tenancies could also give tenants the opportunities to make refurbishment improvements to rental properties. This type of arrangement is likely to work best with long term landlords who focus on rental income rather than those who are more reliant on capital gains and trading properties.

Rental Trends

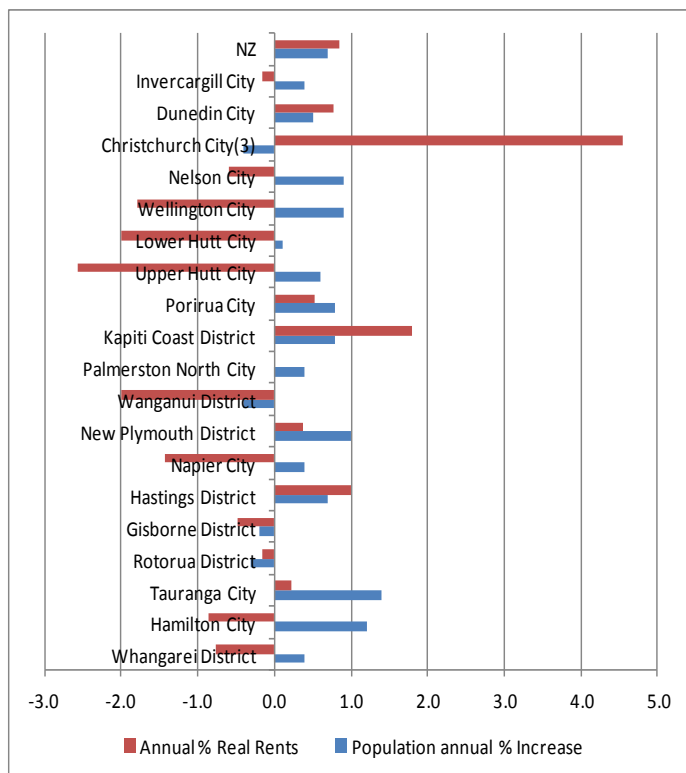
The chart below maps the percentage changes in the median rents for the main urban centres (excluding Auckland City but including Auckland in the all New Zealand data) over two six year periods, 2003-2008 and 2009-2014. Clearly rental increases were greater in the 2003-2008 period. Both periods include property booms but the most recent boom is much more a function of upwards movements in Auckland and Christchurch than the rest of the country, particularly the smaller centres.

Various reasons can be advanced for the relative slow down in rental growth over the 2009-2014 period. The prolonged aftermath of the 2007-2008 global finance crisis clearly impacted on rental growth. This was because with increased unemployment there was more efficient utilization of housing by tenants and an initial slow down in the rate of new household formation. The 2009-2014 period also saw 50 year lows in mortgage interest rates resulting in some landlords placing less emphasis on gross yields since the appreciation in the value of their rental houses dominated investment returns.



Demographics and Rents

Although demographic changes play an important part in medium/long term changes in rents between cities, in the short term demographic influences are less apparent. Average annual changes in the population 2006-2013 and real changes in rents over the same time period are set out in the chart below for the main cities, excluding Auckland. On a national basis it appears that inflation adjusted rents are correlated with population growth but by city the results are extremely variable, indicating other variables need to be considered. For example Christchurch rents have increased dramatically while at the same time the population has decreased due to people leaving because large numbers of house were damaged by earthquakes. Economies such as Wellington and Whangarei show positive population growth but declines in inflation adjusted rents, perhaps a consequence of slow growth in jobs.



Rental Levels

The national level of rent in August 2014 was \$340 per week. This represented a \$10 per week (2.8%) decrease in the national rent last quarter. Over the last year the national level moved up by \$10 (3%). The most significant annual increase in rents was in Christchurch (9.7%). On an annual basis Auckland rents have started to move, particularly in Papakura (6.4%). A snapshot of rents itemised by the main urban local authorities is shown in the table in the right hand column.

Median Rents	Aug-13	May-14	Aug-14
Whangarei	290	290	285
North Shore	460	490	460
Waitakere	400	410	410
Auckland	420	440	435
Manukau	420	420	430
Papakura	390	380	415
Hamilton	320	310	300
Tauranga	340	340	340
Rotorua	250	250	255
Gisborne	260	262	260
Hastings	260	295	285
Napier	300	300	300
New Plymouth	300	320	330
Wanganui	200	200	200
Palmerston North	260	280	280
Kapiti	340	350	315
Porirua	360	357	350
Upper Hutt	290	285	287
Lower Hutt	317	310	290
Wellington	390	400	400
Nelson	300	320	320
Christchurch	360	390	395
Dunedin	260	280	260
Invercargill	220	222	220
All NZ	330	350	340

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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