

NZ Residential Rental Market

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Rent and Location

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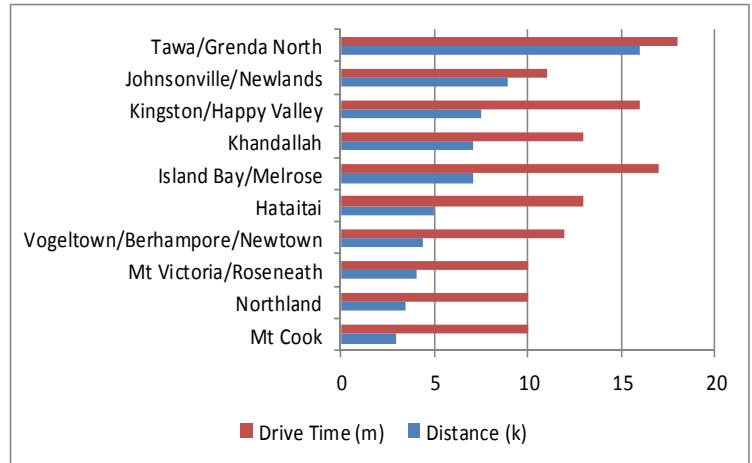
DATA SOURCE This publication has been developed from private sector rental data supplied by the Ministry of Business Innovation and Employment (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information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

Wellington

The general relationship between residential rents and location is rents increase as the distance to a central place decreases. The rationale for this relationship is related to the increased financial and time costs more distant residents face having further to commute to jobs and leisure activities in the central city. The chart below measures the distance in kilometres to the centrally located Wellington Railway Station (right hand scale) against the median weekly residential rent for a 3 bedroom house (left hand scale) for each suburb where there is a reasonable volume of rental data. Clearly, the chart shows there is an inverse relationship in Wellington between residential rents and proximity to the Wellington Railway Station.

Measuring the actual distance to a central place is only one way of measuring location. An alternative method is to calculate driving time. The chart at the top of the right hand column compares distance (kilometres) with driving time (minutes), using the directions application in Google Maps. Interestingly in northern Wellington suburbs, with good access to the urban motorway, driving time and distance are more closely correlated than in the more congested southern suburbs where traffic delays occur at “choke points” such as the Basin Reserve. These days high density traffic flows are not confined to journeys to and from work since many parents are driving their children to and from school.

For a time it was thought the internet would allow many people to work at home and overcome what Australians termed “the tyranny of distance”. In reality most jobs do require a physical presence at the office, at least some of the time. Humans are social creatures and appreciate the networking opportunities available in the central city. The growth in the Wellington Café scene is really just a continuation of a long held English tradition of using central coffee houses as information exchanges.

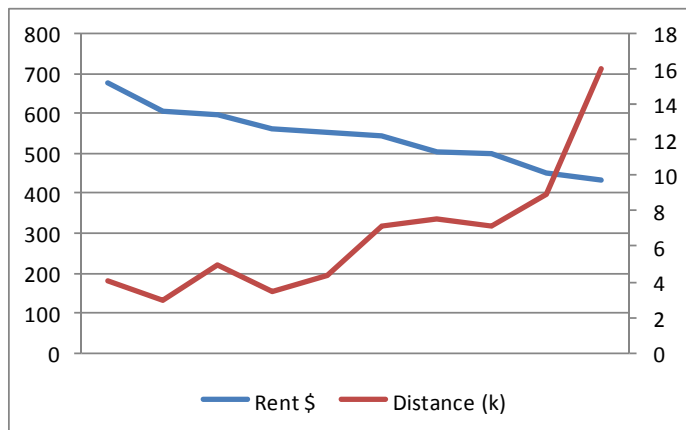


Other Location Linkages

Location is a complex topic as demonstrated by R.B. Andrews in *Urban Land Economics and Public Policy* (1971). Andrews defined location as the relationship of a household to its “total urban environment”. In addition to the linkages to the work place Andrews emphasised the importance of linkages to similar types of housing, the quality of the public infrastructure, zoning stability, owner and tenant pride and a preference for neighbourhoods containing people with similar occupations and income. In addition Andrews believed the quality of local schools, tree plantings, recreational facilities and special natural features such as water views all contribute to location values. The simple way of summing up the complexity of peoples individual preferences is to use the market price of houses and rents.

There is also a difference between owners and renters housing preferences. Renters are generally significantly younger, less affluent and move more frequently than owners. Traditionally the switch from renting to owning occurred when couples married or had their first child. More recently the high cost of owning a house has delayed ownership as it often takes two incomes to service a mortgage.

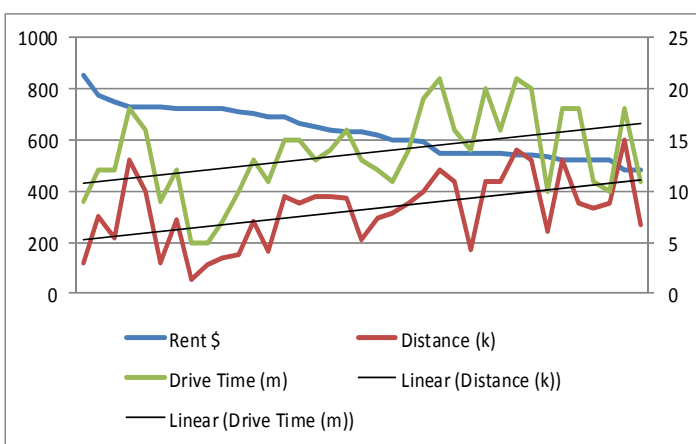
Renting populations are typically higher in suburbs where the housing costs are lower. These are not necessarily outlying suburbs. They may be suburbs where the quality of housing is below average or there are detracting environmental features such as proximity to industrial areas with noise and chemical pollution issues. Location values are not fixed, peoples preferences can change over time and locational friction can be reduced by improving roads and building structures such as the Auckland harbour bridge and an additional Mt Victoria tunnel.



Auckland

The inverse relationship between residential rents and distance to a central place also holds true in Auckland. The chart below utilises rental data from 37 suburbs within the old Auckland city boundaries and measures distance and driving time using the Google Maps application. The central point selected was the Auckland transport hub which is at the site of the old central post office. Presumably driving time was estimated by Google in non rush hour periods. Linear distance and driving time are plotted on the right hand scale and the median rent for Auckland suburbs on the left hand scale. To emphasise the downward sloping nature of distance and driving time simple linear regression lines were added to the chart.

The “bumpy” nature of the distance lines for Auckland is partially a reflection of cross town traffic movements to and from the nearby centres of Manukau, North Shore and Waitakere. For example a desirable eastern suburb might be quite far from central Auckland but close to central Manukau.



Rental Levels

The table at the top of the right hand column shows median rental changes over the last year and the last quarter, for the main urban centres, excluding Queenstown. The national level of median rent for August 2016 was \$380 per week, down \$5 per week on the high reached in May 2016. Over the last twelve months the national median rent increased by \$20 per week or 5.5%. The main driver of the national rent increase was demographic pressure on the cities north of and including Rotorua. Christchurch rents declined 2.6% on an annual basis, indicating less demand pressure as the residential rebuild is now well under way.

Median Rents	Aug-15	May-16	Aug-16
Whangarei	305	330	325
North Shore	520	520	525
Waitakere	450	460	475
Auckland	460	495	480
Manukau	460	477	480
Papakura	430	455	450
Hamilton	320	355	360
Tauranga	375	420	420
Rotorua	260	285	300
Gisborne	270	290	290
Hastings	300	300	317
Napier	307	340	330
New Plymouth	330	337	330
Wanganui	220	220	230
Palmerston North	280	290	300
Kapiti	325	372	370
Porirua	370	360	370
Upper Hutt	350	295	290
Lower Hutt	310	330	359
Wellington	400	435	425
Nelson	320	350	330
Christchurch	385	380	375
Dunedin	280	275	275
Invercargill	220	247	240
All NZ	360	385	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 Emeritus 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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