



RESIDENTIAL MARKET REPORT

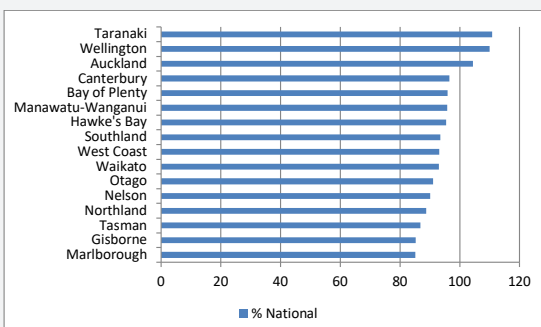
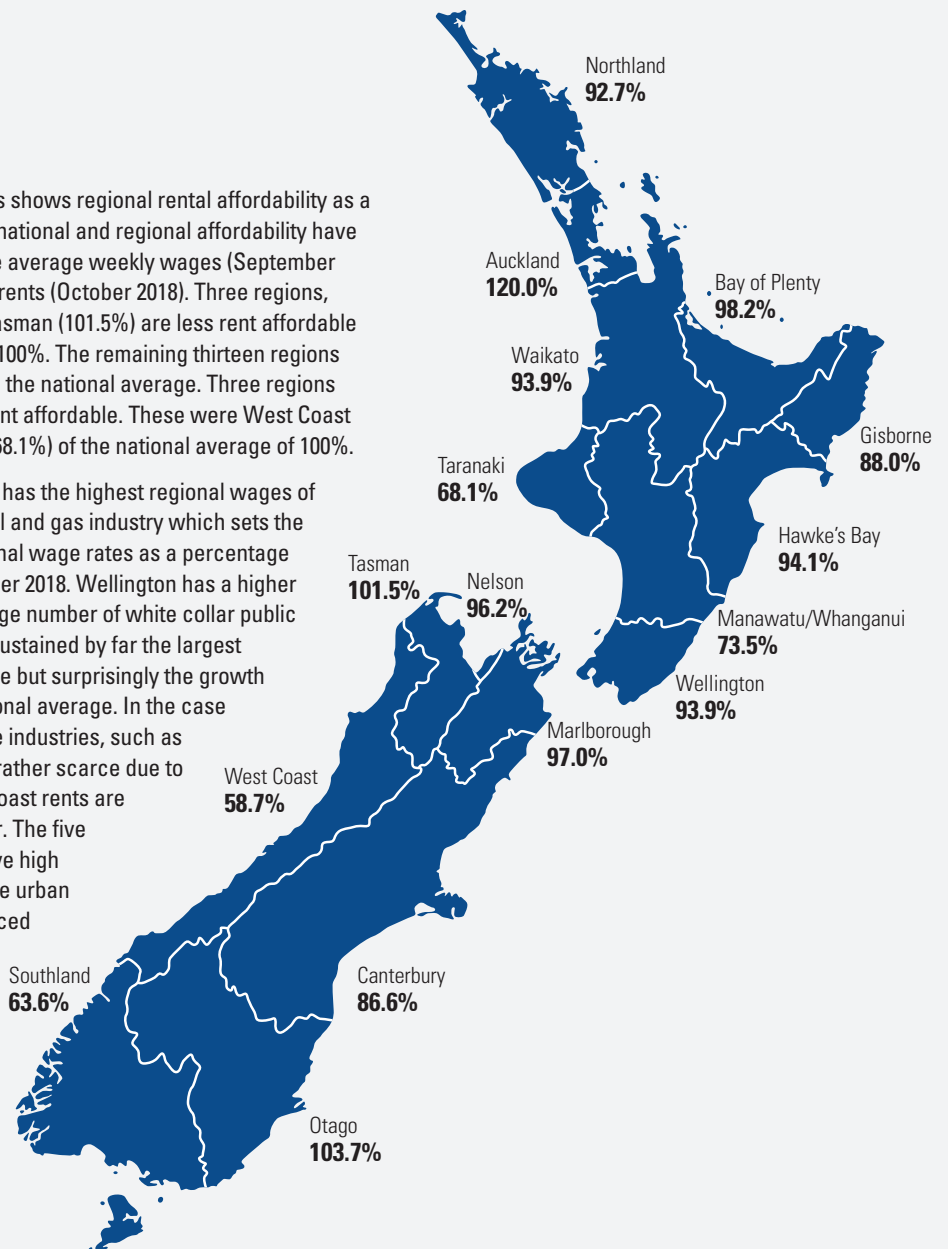
QUARTERLY SURVEY DECEMBER 2018

HEADLINE

REGIONAL RENTAL MARKET AFFORDABILITY

The map of New Zealand’s sixteen regions shows regional rental affordability as a percentage of national affordability. Both national and regional affordability have been calculated by dividing the respective average weekly wages (September 2018) into the respective geometric mean rents (October 2018). Three regions, Auckland (120.0%), Otago (103.7%), and Tasman (101.5%) are less rent affordable than the national average which is set as 100%. The remaining thirteen regions are all relatively more rent affordable than the national average. Three regions continue to stand out as being the most rent affordable. These were West Coast (58.7%), Southland (63.6%) and Taranaki (68.1%) of the national average of 100%.

Taranaki is an interesting case because it has the highest regional wages of all the regions, due in a large part to the oil and gas industry which sets the benchmark. The chart below shows regional wage rates as a percentage of the national average wage for September 2018. Wellington has a higher average wages than Auckland due the large number of white collar public service jobs in the capital. Auckland has sustained by far the largest increase in population over the last decade but surprisingly the growth in rents has remained in line with the national average. In the case of the West Coast region jobs in extractive industries, such as coal mining, are relatively highly paid but rather scarce due to environmental issues. This means West Coast rents are quite low due to the higher vacancy factor. The five regions with the lowest wage rates all have high sunshine hours and in the absence of large urban populations tend to attract renters influenced by “lifestyle” considerations.



Wellington rentals continue to increase in the short term on the back of strong demand but the medium term trend reflects more modest growth with season peaks



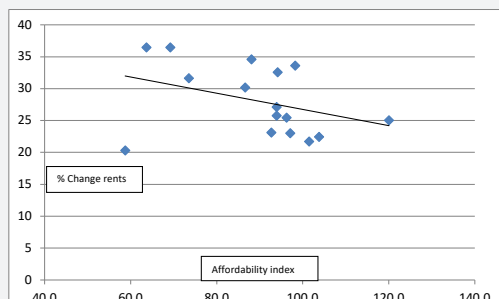


CHANGES IN RENTAL AFFORDABILITY JUNE-SEPTEMBER 2018

	IMPROVEMENT	DETERIORATION
Northland	2.50%	
Auckland		1.40%
Waikato		4.60%
Bay of Plenty	3.90%	
Gisborne		8.00%
Hawke's Bay		3.90%
Taranaki		5.50%
Manawatu-Whanganui		2.50%
Wellington		2.40%
West Coast	7.40%	
Canterbury		3.30%
Otago	6.60%	
Southland		1.60%
Tasman	4.40%	
Nelson		0.20%
Marlborough	1.60%	
New Zealand	1.70%	

Several trends appear in the table above. A levelling off in national net migration has eased some of the demand pressure on rental accommodation. Then there has been modest growth in wages over the quarter. The deterioration in several regional rental indices is most likely due to the movement of people out of Auckland who are seeking rental housing in the less expensive towns and cities. For example, the weekly rental for a house in Whanganui is around half the rental of a house in Auckland. Similarly Gisborne houses typically rent at around 60% of the cost to rent an Auckland house.

The next chart maps the percentage change in rents by region over the last five years on the vertical axis against the rental affordability index by region on the horizontal axis. A downward sloping trend line has been added to show that as affordability gets harder there is more pressure to keep rents at a level that tenants can sustain. This may help to explain why some renters choose to exit larger cities for lower wages and rents in more affordable regions.



Statistics New Zealand (2018) have provided some insight into the dynamics of internal migration within several New Zealand cities, including Auckland. They found the numbers of people leaving Auckland exceeding the number moving to Auckland from other parts of New Zealand. Conversely Dunedin, Hamilton, Tauranga and Wellington all had positive net internal migration from other parts of New Zealand. Of course external migration from outside New Zealand more than compensated for the relatively small outflow of people from Auckland.

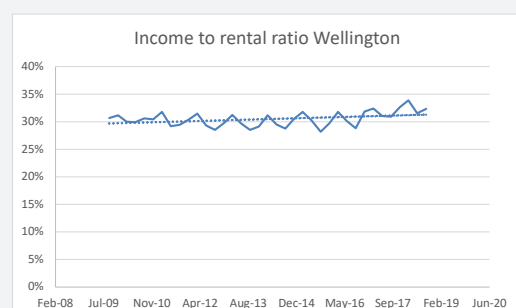
RENTS FOR THE MAIN CITIES

The rents over the period November 2017 to November 2018, for the main urban areas, are set out in the table below. Nationally rents increased by 5.2% over this period. The largest rent increases were in the Wellington regional cities, Hastings and in the lower South Island. Rent increases in the Auckland region were generally below the national average, perhaps a moderating effect on the national geometric mean rent.

GEOMETRIC MEAN RENTS	NOV 2017	AUG 2018	NOV 2018
Whangarei	362	369	364
North Shore	545	561	571
Waitakere	493	498	493
Auckland	510	503	524
Manukau	489	505	525
Papakura	472	481	493
Hamilton	367	359	372
Tauranga	426	457	447
Rotorua	330	333	350
Gisborne	258	303	278
Hastings	345	367	395
Napier	371	384	395
New Plymouth	339	331	328
Whanganui	249	269	278
Palmerston North	311	303	322
Kapiti	369	386	401
Porirua	424	423	472
Upper Hutt	327	343	386
Lower Hutt	360	379	391
Wellington	432	438	472
Nelson	347	345	355
Christchurch	336	338	358
Dunedin	325	353	369
Queenstown	500	528	564
Invercargill	234	241	254
All NZ	399	410	420

WELLINGTON RENTAL AFFORDABILITY

There has been recent commentary on the increasing pressure on rentals in Wellington. As noted above, this city is a predominantly white-collar locality, underpinned by the public sector. It has historically supported relatively high average incomes. The chart below shows the 10 year trend in rental affordability in Wellington. The chart shows that over the period there has been seasonal variation, but this variation has been within a fairly narrow band, certainly by comparison with Auckland (refer to September edition). An upward trend in the past two years can be seen, but this would not appear as dramatic as anecdotes suggest.





DATA SOURCES

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 New Zealand (REINZ) and Quotable Value (QV) NZ statistics.

TERMINOLOGY

Geometric mean rents are used in this publication as a better measure of rental trends than median and average rents because rents at the top end of the market are down weighted. For example, take three numbers 2,3, and 6.

The average is 3.66, the median is 3 and the geometric mean is 3.3. To calculate the geometric mean multiply the three numbers together and then calculate the cubed root.

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 also established a Real Estate Analysis Unit.

The Foundation works closely with the Property Studies Group at Massey University.

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SCHOOL OF ECONOMICS AND FINANCE MASSEY UNIVERSITY

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