



RESIDENTIAL MARKET REPORT

QUARTERLY SURVEY SEPTEMBER 2018

RENTAL MARKET AFFORDABILITY CONTINUES TO DECLINE

REGIONAL RENTAL MARKET AFFORDABILITY

The map of New Zealand's sixteen regions shows that region's affordability relative to the national average, using data as at June 2018. National and regional affordability have been calculated by dividing the respective average weekly wages (June 2018) into the respective geometric mean rents (June 2018). The picture emerging from the analysis is that four regions, Auckland (120.2%), Otago (113%), Tasman (107.9%) and Bay of Plenty (104.1%) are less affordable than the national average (which is set as 100%). The remaining twelve regions are all relatively more affordable than the national average. Three regions stand out as being the most rent affordable. These were Southland (63.8%), West Coast (64.6%) and Taranaki (66.6%) of the national average of 100%.

Perhaps the most surprising result, at first glance, is the relative rent unaffordability of the Otago region. A closer examination of the regional boundary for Otago shows it includes the Queenstown lakes area which is notable for a shortage of rental accommodation and a low wage economy based on servicing the tourism industry. Difficulties with rental affordability in the Auckland region are related to increasing demand due the Auckland's rapidly increasing population and not enough rental houses being built.

Both Southland and the West Coast have relatively static populations and there is less demand for rental housing since home ownership is often an affordable option.

CHANGES IN RENTAL AFFORDABILITY 2000 TO 2018

The table below shows percentage changes in regional rent affordability since June 2000, compared to the national average. Three regions, Otago, Northland and Bay Plenty show worsening rental affordability in relation to national rental affordability. The most significant change occurred in the Otago region (27.4%) and this was mainly due to the surge in tourism in the Queenstown Lakes area placing pressure on the rental market for workers. A further impact comes from short-term web-based accommodation, which has potentially taken some properties out of the standard rental market, reducing supply and putting pressure on rentals. The remaining twelve regions showed a negligible decline or an improved rental affordability in relation to the national average.

GEOMETRIC MEAN RENTS	% change June 2000 to June 2018
OTAGO	27.4
NORTHLAND	6.1
BAY OF PLENTY	4.4
WAIKATO	0.7
TASMAN	0.6
AUCKLAND	-0.5
HAWKE'S BAY	-2.9
WELLINGTON	-4.9
MANAWATU-WANGANUI	-6.3
CANTERBURY	-9.5
MALBOROUGH	-10.7
NELSON	-11.8
SOUTHLAND	-12.6
WEST COAST	-14.0
GISBORNE	-15.7
TARANAKI	-21.7

The upward trend in the high growth areas of the country continues. Pressure on rental markets in tourist locations continues, possibly exacerbated by the impact of short-term web-based accommodation on the rental supply.



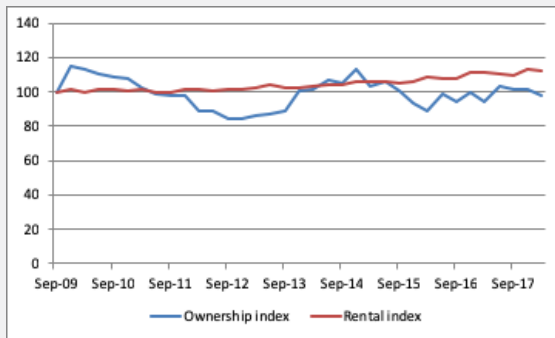


NATIONAL AFFORDABILITY TRENDS (RENTING VERSUS OWNING)

The chart below compares renting versus buying national affordability indices over the period September 2009 to March 2018. Both indices have been set at 100 for September 2009. The buying index is clearly more volatile than the renting index because of fluctuating mortgage interest rates and house prices over the period. The renting index showed a steady increase of 12.2% from 2009 to 2018.

It should be noted that comparing these indices do not attempt to answer the question of whether it is better to buy or rent. Rather, this shows the relative trend in affordability and volatility in these segments of the accommodation market.

The relative affordability of ownership compared to rental tenure is more complex, taking into account matters such as residual income after property related expenses, and assumptions on debt to equity ratios.



RENTAL AFFORDABILITY RELATIVE TO INCOMES

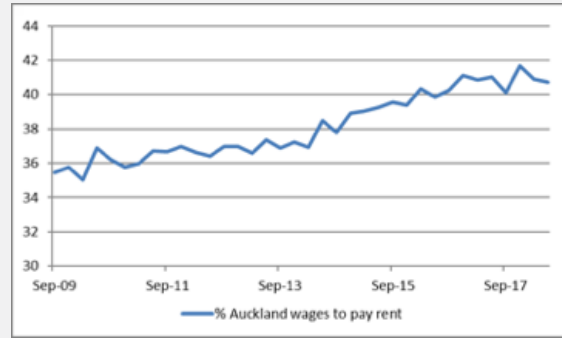
Of practical importance to rental occupiers is the percentage of the average weekly wage that is needed to pay the rent. The chart below shows that at September 2009 it took 30.3% of the average national wage to pay the national rent and at March 2018 this had increased to 34.0%.

This is to say that while incomes have increased over this period, the cost to rent accommodation has outpaced this, requiring an increase in the proportion of income allocated to this cost.



AUCKLAND REGION RENTAL AFFORDABILITY TRENDS

The decline in Auckland's regional rent affordability (35.4%-40.7% of wages to rent) over the period Sept 2009 to March 2018 is shown in the chart below. This is concerning since the latest census is likely to show about half the households in Auckland are occupied by renters. There are government subsidies, such as the Accommodation Supplement, that ease the rent burden for low income families but overall rental affordability is likely to get worse before it gets better due to the shortage of rental housing in Auckland.



Although rentals have increased, this has been outpaced by house price increases. It is reasonable to assume that landlords have anticipated on capital gains to bolster the stagnating income returns on their property investments. Indications from the Taxation Working Group are that landlords may well be targeted in the future by taxation on capital gains. Decisions on new property taxes will be highly political and depending on the policy adopted, may well see a change in investor behaviour.

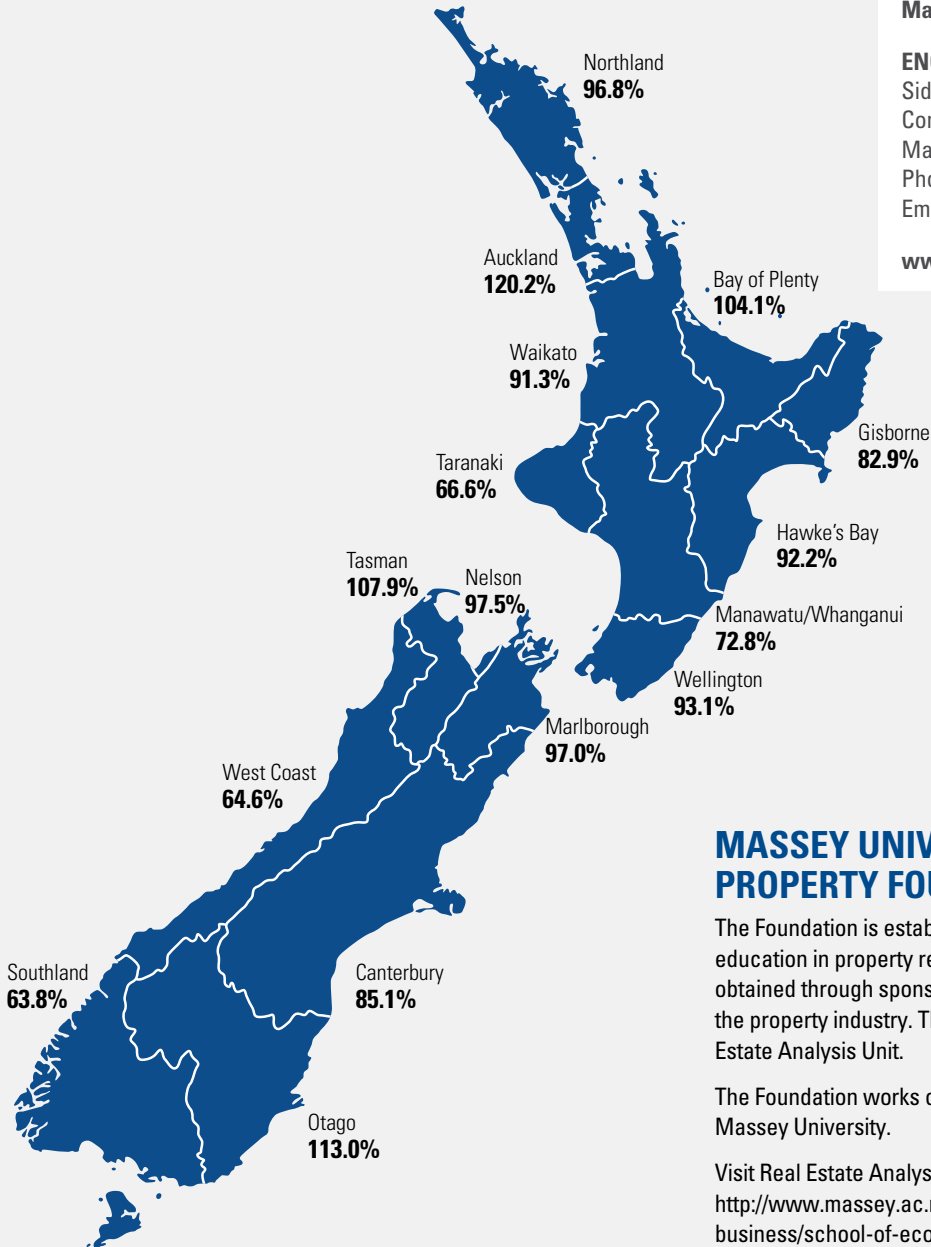
RENTS FOR THE MAIN CITIES

The table below shows the geometric mean weekly rents for the main New Zealand cities from August 2017 to August 2018. During this period the national geometric mean weekly rent increased to \$410 from \$391, an annual increase of 4.8%. Somewhat surprisingly rental increases for the period were led by Whanganui (11.1%), followed by Hastings (8.9%) and Rotorua (7.42%). Perhaps this result has been caused by the movement of an increasing number of people out of Auckland who are seeking a more affordable lifestyle in the provinces.

GEOMETRIC MEAN RENTS	AUG 2017	MAY 2018	AUG 2018
Whangarei	360	370	369
North Shore	540	536	561
Waitakere	491	494	498
Auckland	508	521	503
Manukau	485	506	505
Papakura	481	487	481
Hamilton	349	364	359
Tauranga	427	444	457
Rotorua	310	334	333
Gisborne	290	309	303
Hastings	337	359	367
Napier	358	390	384
New Plymouth	323	340	331
Whanganui	242	254	269
Palmerston North	289	304	303
Kapiti	385	392	386
Porirua	448	398	423
Upper Hutt	343	373	343
Lower Hutt	368	370	379
Wellington	415	456	438
Nelson	333	349	345
Christchurch	337	354	338
Dunedin	334	301	353
Queenstown	529	591	528
Invercargill	235	248	241
All NZ	391	411	410



REGIONAL RENTAL AFFORDABILITY



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.

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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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