



NZ Residential Rental Market

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A response to “A Stocktake of New Zealand’s Housing”: What about Housing Financialisation?

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 Global Picture

The increased interrelationships between local housing markets and international financial markets has been described by Fernandez and Aalbers (2017) as housing financialisation. Instead of treating housing simply as place to live housing is now often viewed as a commodity that can be traded, borrowed against and used as a way of accumulating wealth.

Of course there is nothing new about first home buyers and property investors borrowing money on a mortgage from local lending institutions to complete property purchases. What is relatively new are the complex financial instruments that can arise from a property transaction. For example, instead of a Bank holding individual mortgages they may on sell a bundle of mortgages to another financial institution who may then securitise these mortgages and sell components (such as the rights to the interest payments or capital repayments) to individual investors.

These sales may cross international borders when a Bank in the first country sells mortgages to an institution in another country. By freeing up capital that can flow into housing markets financialisation has encouraged more property investors to enter the rental market. These investors may be competing with first home buyers for homes. The investors are often able to outbid potential owner occupiers and may own multiple properties.

The Global Financial Crisis (GFC) revealed the problems that can arise when lending institutions fail to accurately assess the debt servicing ability of borrowers, particularly low income mortgagors. The GFC also showed that Bank staff were often incentivised by their salary packages to maximise lending at the expense of prudence. In theory lending risk to the mortgage originator could be mitigated by taking out insurance, but in practice during the GFC the largest insurer in the market became insolvent due to the non repayment of large numbers of sub-prime mortgages.

The next step in global housing financialisation occurred when governments began to consider ways of making better use of their social housing assets which were showing very low rates of return on the underlying asset values. Selling social housing to private providers was seen as a way of freeing up capital that could be put to better use elsewhere, or used to repay government debt. Some of these private providers were not for profit organisations while others were for profit. Some private social housing providers were forced into speculating on risky financial derivatives in order to cover funding shortfalls.

Critics of housing financialisation argue that introducing the profit motive into housing has resulted in inequality increasing between renters and home owners. The United Nations Special Rapporteur on Housing has pointed out adequate housing is a basic human right. Further that adequate housing should be treated as a social good in line with the needs of the most vulnerable people in the population rather than an investment vehicle for the well off.

The Economist (Feb.17, 2018) noted that the leader of China Xi Jinping has said “homes are for living in, not for speculation”. China is amongst a number of countries where low mortgage interest rates, easy credit and the lack of alternative low risk investment opportunities have pushed up house prices and rewarded property speculation.

New Zealand

The local housing market has been partly financialised, but fortunately escaped most of the worst aspects of the GFC due to a strong banking sector operating relatively strict lending criteria. But during the GFC a number of secondary lenders (finance companies) failed. Significant sales of government social housing while contemplated did not eventuate because of the reluctance of private providers to enter this market. Housing supply limitations together with both ownership and rental affordability are important problems in New Zealand. Auckland is currently short of around 45,000 houses.

A comprehensive report on NZ housing noted reducing rates of home ownership, a rising demand for government social houses, an ever increasing demand for the government accommodation supplement, health issues for families living in overcrowded houses and an overall “housing crisis”. (Johnson et al., 2018)

In recent years there has been a housing market failure in Auckland. There are complex reasons for this failure including time delays in rezoning land for housing, labour shortages, inefficient builders failing and unexpected record high levels of net migration. Successful housing developers have learnt that to stay in business they need to be cautious. Finance for developments can suddenly be withdrawn when financial market conditions change or there are changes in government policy relating to immigration and overseas ownership of houses.

Liberal bank lending policies combined with good prospects of capital gain have made investment in rental housing an attractive proposition for the well off. A few investors who own multiple houses have preferred to keep their houses empty rather than having to deal with tenants. Perhaps the best local example of speculation in housing.

NZ Subsidised Rents

There are two main forms of subsidised rents for housing, Income Related Rents (IRR) and the Accommodation Supplement (AS). Treasury projected costs for this year are, IRR (\$900m) and AS (\$1,219m). Over 90% of IRR expenditure relates to 58,300 State Houses where the tenants pay a maximum of 25% of their income as rent. The AS expenditure covers around 285,000 individuals, mainly private sector renters. Authors of the Stocktake of Housing (Johnson et al, 2018) estimate 28% of private sector rental household receive the AS. They note the growth in AS expenditure may slow down as increasing numbers of recipients also qualify for superannuation or work related subsidies.

There is an unresolved economic question as to whether the AS is a landlord subsidy that gets capitalised into rents and house prices, or is it just a tenant subsidy? When rental housing is in short supply then market rents are most likely to increase anyway but without the AS could result in more overcrowding and homelessness. When the market is oversupplied with rental housing rents will be flat, they could go down and the AS will likely remain with the tenants. However, if rents go down then the AS may reduce accordingly, depending on the policy at the time.

Headwinds For Property Investors?

There is little doubt that the government will continue to tax short term property speculation. It is government policy to extend the present two year bright line test of property speculation to five years. The prospects for a full capital gains tax in the future are less certain and the government have said that it will not happen in the next three years.

In the short run property investors owning run down houses will be faced with the possibility of having to spend a considerable amount to comply with possible Warrant of Fitness standards if and when introduced by local authorities.

Investor profitability is also affected by mortgage interest rates and the trend over the next few years is likely to be up.

Rental Levels

The table in the right hand column shows the geometric mean weekly rents for the main New Zealand cities from February 2017 to February 2018. During this period the national geometric mean rent increased to \$409 per week, an annual rate of increase of 4.07%.

The three most expensive rental areas were North Shore, Queenstown, and Auckland. In the North Island annual rental increases over 10% were recorded in provincial cities Whanganui., Lower Hutt, Kapiti, Hastings and Papakura. Small rent decreases were recorded in Palmerston North and Christchurch.

Geometric mean rents are a better measure of rental trends than median and average rents because rents at the top end of the market are down weighted.

References:

- Fernandez.,R., Aalbaers, M. B. (2017) Housing and Capital in the Twenty-first Century: Realigning Housing Studies and Political Economy. *Housing, Theory and Society*, 34 (2), 151-158
- Johnson,A. Howden-Chapman,P., Eaquib,S., (2018) *A Stocktake of New Zealand's Housing-February 2018*
- The Economist (2018). The Economist Article. Feb.17, 2018

Geometric Mean Rents	Feb-17	Nov-17	Feb-18
Whangarei	344	362	368
North Shore	546	545	573
Waitakere	469	492	499
Auckland	513	507	512
Manukau	482	487	506
Papakura	439	467	500
Hamilton	352	365	365
Tauranga	423	427	438
Rotorua	306	327	335
Gisborne	267	258	282
Hastings	303	343	347
Napier	370	371	381
New Plymouth	318	338	346
Wanganui	215	246	263
Palmerston North	289	309	282
Kapiti	332	369	391
Porirua	415	423	461
Upper Hutt	335	331	368
Lower Hutt	347	360	414
Wellington	460	432	495
Nelson	324	347	351
Christchurch	368	336	365
Dunedin	314	321	331
Queenstown	499	500	520
Invercargill	221	234	242
All NZ	393	398	409

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 established a Real Estate Analysis Unit to operate out of both Massey University's Palmerston North and Albany campuses.

Real Estate Analysis Unit

The primary objective of the Real Estate Analysis Unit (REAU) is to provide reliable property information to the property industry, the land related professions and the public. The director of REAU is Associate Professor Graham Squires.

REAU also offers a consulting service for individual clients. REAU publications available on the internet are:

- 1 The Home Affordability Report (Quarterly)
- 2 NZ Residential Rental Market Report (Quarterly)

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