

# NZ Residential Rental Market

## December 2017

Quarterly Survey Volume 20, Number 4



### Rental Market Tightens

Prepared by  
Bob Hargreaves\*

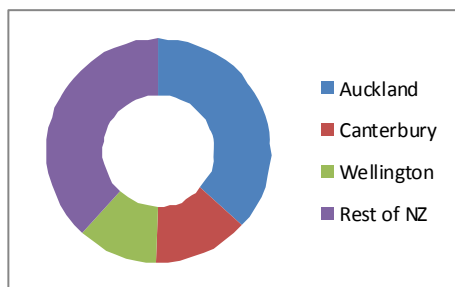
**DATA SOURCE** This publication has been developed from private sector rental data supplied by the Ministry of Business Innovation and Employment (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information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

#### Demand Issues

The demand for rental accommodation is a function of increases in the overall population combined with a higher percentage of renting households. For example, over the period March 2006 to March 2016 Statistics NZ estimated households renting increased from 29% to 33%. At the same time the number of renting households grew by around 121,000. This trend is thought likely to continue as high house prices and the difficulties in servicing large mortgages are making it increasingly difficult for families to make the transition from renting to ownership.

The demand for rental housing is greatest in the larger cities, particularly in Auckland and to a lesser extent in Wellington.

The chart below uses regional Tenancy Bond data over the last year to illustrate how Auckland (36.5%) dominates the private sector rental market over Canterbury (13.8%), Wellington (11.7%), and the rest of New Zealand (38%).



Adverse events such as earthquakes in Christchurch and Wellington can also result in short/medium term demand pressures due to both tenants and home owners being displaced and the rebuilding workers requiring housing.

Seasonal demands for housing are seen in University cities where new students move out of the family home into rental flats. Usually there is a “shake down” period of several weeks where new flats are formed and the reality of having to share a room with a flat mate is settled. Then there is the question of underlying demand caused by the rental affordability gap and people that are priced out of the rental market. Increases in inbound tourists also create rental demand pressure.

Can demand pressures be moderated? The answer is Yes. The most obvious solution is for the government to reduce the inward flow of migrants from the current very high level to a level where rental demand is more aligned with rental supply. Of course the trade off with reducing migration is that the economy may slow and politically this could cost the government some support.

#### Supply Issues

The supply of rental accommodation in New Zealand is dominated by the private sector. Typically homes are converted from home ownership to rentals when property investors can pay more than first home buyers for a second hand house. Property investors consider both the yield and potential for capital gains when making an investment decision. Areas with the greatest prospect of capital gains usually show the lowest yields (gross income as a percentage of purchase price). Converting a second hand house from ownership to a rental does not add to the overall stock of housing so the supply of rental housing depends on the new housing being added to the existing stock.

The experience over the last decade is one of market failure to supply enough new homes to meet the demand. There are a number of reasons for the current under supply of new housing. The Productivity Commission identified the relative inefficiency, resulting in high construction costs, for small fragmented local builders when compared with larger scale builders in Australia and beyond. Then there is the riskiness of potentially profitable speculative building without having a purchaser signed up. The most profitable type of housing for speculative builders to construct are large and elaborate houses sitting on expensive sections. (Sometimes two basic smaller houses could have been built for the price of one large house). Then there is the NIMBY (not in my back yard) syndrome where efforts by developers to build low rise apartments in the leafy suburbs get bogged down by legal challenges from the residents.

Where there is a market failure in housing the question then becomes should the government intervene beyond the present level of rental subsidies and state house construction?

#### Factory Built Houses?

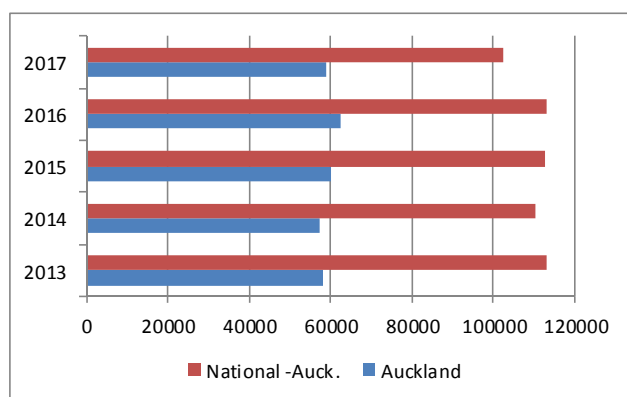
Factory built housing components offer potentially large savings in building costs, particularly labour, because they are ideal for the application of modern technology using robots and standardised panels. Furthermore building quality can be much more easily controlled in a factory environment than under the present bespoke system which was partially responsible for the leaky building crisis. The factory output would comprise finished panels (insulated, painted and wired) using local wood products. The panels would be slotted together on building sites. Building housing components in a factory requires a large scale operation, located in Auckland, in order to achieve the optimal benefits. Such a venture would ideally be financed by a private/public partnership where the government would give certain undertakings for continuity of work in line with their election promise to build 100,000 new houses over the next decade. Factory built housing works well for both small starter houses being built in a green fields situation and for medium rise apartments on redeveloped sites within older suburbs.

## Doubling Up and Undoubling

When high rents make affordability difficult for individuals and families there are several strategies that are sometimes used to reduce the rent per person. Young couples may delay marriage or living together and continue to stay with their parents thus avoiding the formation of a new household. Similarly the tenants in a rental house may elect to take in an extra tenant or two (doubling up) depending on what is specified in the tenancy agreement regarding maximum occupancy levels. Conversely the undoubling effect occurs when young people move out of the family home and set up a new household.

## Rental Market Churn

The chart below maps the number of new private sector tenancies, over the last five years, for the Auckland region and the rest of New Zealand. At first glance it is surprising that the number of new tenancies has not increased in line with the expansion in the number of households renting. The reason for this situation appears to be that renters are not moving around as much as they used to because of the difficulties in switching rentals in a very tight market. Also the average age of renters has been going up over time meaning older renters are more settled and thus less inclined to move.



## Rental Levels

The table in the right hand column shows the geometric mean weekly rents for the main New Zealand cities from November 2016 to November 2017. During this period the national geometric mean rent increased to \$398 per week, an annual rate of increase of 3.9%.

The three most expensive rental areas were North Shore, Auckland and Queenstown. In the North Island annual rental increases over 10% were recorded in the provincial cities Whangarei, Rotorua, and Whanganui.

Geometric Mean Rents	Nov-16	Aug-17	Nov-17
Whangarei	322	360	362
North Shore	524	537	545
Waitakere	462	483	492
Auckland	493	507	507
Manukau	474	483	487
Papakura	454	467	467
Hamilton	348	348	365
Tauranga	418	427	427
Rotorua	294	308	327
Gisborne	280	290	258
Hastings	318	336	343
Napier	342	353	371
New Plymouth	313	323	338
Whanganui	222	242	246
Palmerston North	295	289	309
Kapiti	369	387	369
Porirua	377	456	423
Upper Hutt	324	345	331
Lower Hutt	347	369	360
Wellington	403	414	432
Nelson	318	334	347
Christchurch	353	339	336
Dunedin	329	332	321
Queenstown	459	527	500
Invercargill	235	235	234
All NZ	383	390	398

## 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 Associate Professor Graham Squires.

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)

Inquiries concerning this publication and other research papers prepared by MUREAU may be addressed to:

MUREAU  
School of Economics and Finance  
Massey University, Private Bag 11.222  
Palmerston North  
Telephone: +64 6 356-9099 ext: 84064

<http://economics-finance.massey.ac.nz/publications/property>