

NZ Residential Rental Market

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Four Cities- Rental Differences

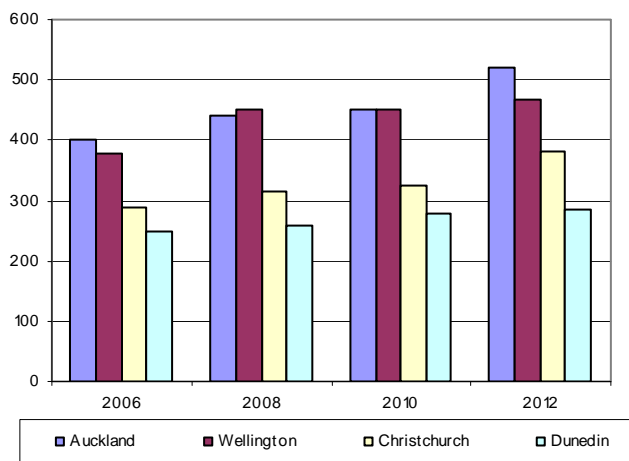
Prepared by
Bob Hargreaves*

DATA SOURCE

This index has been developed from private sector rental data supplied by the Department of Building and Housing (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.

Houses

The dominant form of housing in New Zealand are three bedroom stand alone houses situated in a suburban location. For this reason the rents for three bedroom houses provide a useful means of comparing the growth in residential rents over time for Auckland, Wellington, Christchurch and Dunedin. The chart below compares snapshots of rental levels for these four cities from 2006-2012.



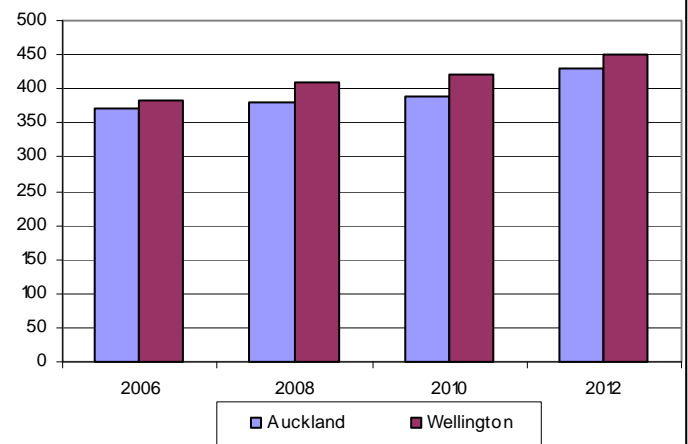
The largest percentage rental increase from 2006 to 2012 was in Christchurch (31%), compared with Auckland (30%), Wellington (23%) and Dunedin (14%). The Christchurch result is very much earthquake related as rental increases there were well behind both Auckland and Wellington prior to the first Christchurch earthquake event. In the case of Christchurch the large number of people leaving the city was not enough to offset the number of badly damaged houses and the long period taken to get the rebuilding process under way.

Growth in the rents for three bedroom houses in Auckland was driven by different demographic and construction variables. On one side a growing population of renters in the countries' most expensive housing market and on the other side an undersupply of both owner occupier and rental housing, partly due to lags in the construction cycle.

Wellington experienced strong rental growth from 2006-2008 (19.3%) but rental growth was flat following this period. Perhaps a reflection of the downsizing the public service being carried out by central government. Dunedin rents only increased by 1.7% over the 2006-2012 period with the demographics indicating a slow population growth.

Apartments

In the case of apartments the dominant form has two bedrooms and these are mostly located in Auckland and Wellington. The chart below shows rental growth in Auckland (16.2%) and Wellington (17.2%) over the period 2006-2012. The growth in apartment rents typically lags that of houses because apartments are supplied by risk taking developers who are not always 'first cab of the rank.' Second and subsequent developers may have to discount prices if the market is oversupplied. Thus apartment supply increases in lumpy amounts, consisting of multiples of the number of apartments, in some cases several hundred, in a particular development. Also, apartment living is still generally a second choice for most renters, compared to living in a house. Houses are typically built individually by small building companies operating under financial constraints that minimise risk taking and are therefore less likely to oversupply the market. The chart below compares two bedroom apartment rental levels for these two cities from 2006-2012.



Wellington apartment rents increased 7.3% from 2006-2008, compared with only a 2.7% increase in Auckland over the same period. More recently from 2010-2012 the position has been reversed with Auckland apartments up 10.2% compared with Wellington 7.1%.

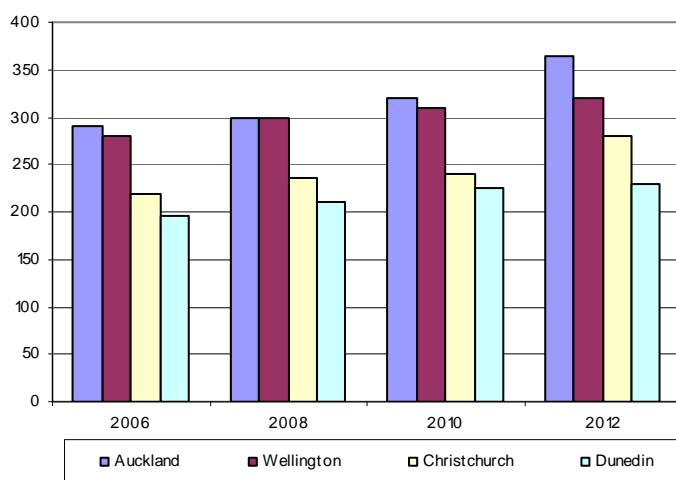
Insurance Issues

It is interesting to note the flow on effects the Christchurch earthquakes are likely to have on the profitability of all types of residential rental accommodation, but particularly Wellington apartments. As housing insurance premiums rise throughout New Zealand insurers also begin to look more closely at the risk factors.

Single level light frame timber construction generally stands up to ground movement much better than some of the older multi-level masonry buildings converted to apartments in Wellington. Auckland with a high proportion of rental apartments has a higher percentage of modern purpose built apartments, is less earthquake prone and should incur smaller increases in insurance costs compared to Wellington. Of course premiums have to rise to return insurers to profitability after recent “black swan” events in countries such as Japan, Australia and New Zealand.

Flats

The growth in the rentals for two bedroom flats over the period 2006-2012 is similar to that of houses. Again rental growth was led by Auckland (25.8%) and Christchurch (27.8%), followed by Wellington (14.2%) and Dunedin (17.2%).



Rental Levels

The national level of rent remained flat at \$320 per week in quarter ending November 2012. A snapshot of rents itemised by the main urban local authorities is shown in the table in the right hand column. On an annual basis rents only moved up by \$5 per week (1.5%) in the November 2011 to November 2012 period.

Median Rents	Nov-11	Aug-12	Nov-12
Whangarei	280	280	287
North Shore	440	447	450
Waitakere	370	370	390
Auckland	420	400	410
Manukau	380	390	390
Papakura	350	350	355
Hamilton	300	300	310
Tauranga	335	325	330
Rotorua	260	240	250
Gisborne	255	250	250
Hastings	275	270	260
Napier	300	295	295
New Plymouth	290	290	295
Wanganui	200	210	182
Palmerston North	270	250	275
Kapiti	330	310	327
Porirua	320	320	320
Upper Hutt	280	280	300
Lower Hutt	315	320	300
Wellington	400	380	390
Nelson	320	300	300
Christchurch	330	330	340
Dunedin	270	285	300
Invercargill	210	220	220
All NZ	320	320	325

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 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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MUREAU
 School of Economics and Finance
 Massey University, Private Bag 11.222
 Palmerston North
 Telephone: +64 6 350-5799 ext: 2321
 Facsimile: +64 4 350-5651

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