

# NZ Residential Rental Market

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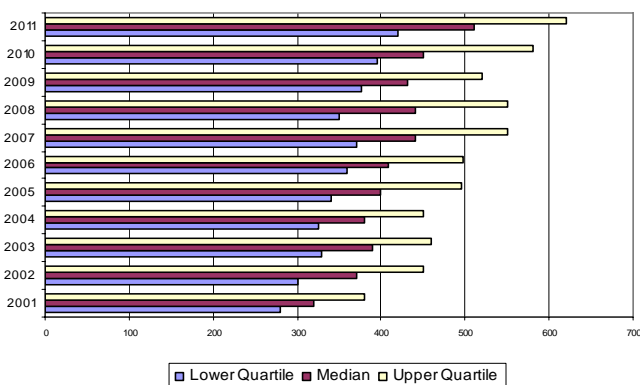
### Rental Market Subsidies

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**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.

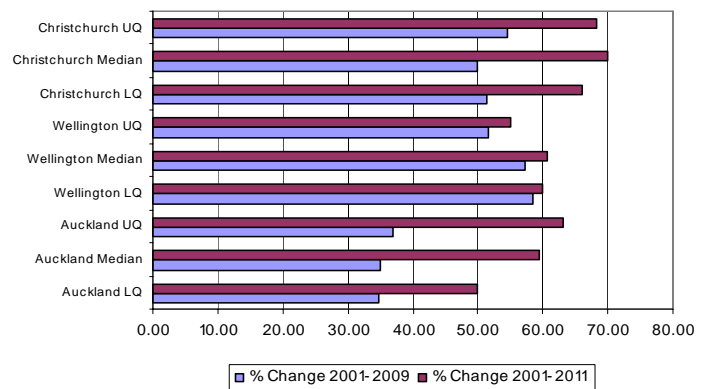
The last issue of this publication considered the question of actual market prices versus the fundamental prices for houses. The analysis showed the housing market can be slow to adjust to changes in the relationship between incomes and house prices, indicating a less than efficient market. Does the same type of inefficiency hold true for the relationship for the residential rental market? In theory the rental market should be more efficient than the housing market since renters move more frequently than owner occupiers and there are a variety of websites and agencies providing up-to-date information on market rent levels. However, measuring market efficiency for residential rents is complicated by several factors including the impact of rent subsidies for the less well off families. These subsidies come in the form of income related rents for State houses and the accommodation supplements for those renting in the private sector. The 2011 report by the Productivity Commission noted from 2004-2011 the accommodation supplement increased from \$691million to \$1.2billion, a compound rate of increase of 8.2%, a rate of increase well ahead of increases in rents. Economic theory suggests the accommodation supplement is capitalised into rental house prices, but this is difficult to prove since rental housing can be easily switched to owner occupation housing and vice versa. The approach taken here is to use banded rental information to see if the market for lower quartile, median and upper quartile rents move in sync. Thus if subsidies allow lower income families to pay higher rents then non subsidised renters will also have to pay more as they compete for the available rental stock. This subsidy at the lower end may well flow through the whole rental market.

The graph below shows percentage rental movements for 3 bedroom houses in the Auckland market over an 11 year period from 2001 to 2011. From 2001-2011 lower quartile rents increased by 50%, median rents by 59% and upper quartile rents by 63%.



The Auckland results are not replicated in Wellington and Christchurch. In Wellington lower quartile rents increased by 60%, median rents by 60% and upper quartile rents by 55%.

In Christchurch lower quartile rents increased by 66%, median rents by 70% and upper quartile rents by 68%. Clearly the earthquake damage to houses has increased rental demand in Christchurch but even before the quake percentage increases (2001-2005) were ahead of Auckland and on a par with Wellington.



The table below shows the percentage change (2001-2011) in lower quartile, median and upper quartile rents from a selection of additional cities. Again there is no clear pattern of differing levels of rental change according to quartiles, suggesting the private sector rental market works in a reasonably efficient manner and factors other than subsidies are at work in rental differences.

	% Change 2001-2011
Whangarei LQ	68.75
Whangarei Median	66.67
Whangarei UQ	60.50
Napier LQ	61.11
Napier Median	53.30
Napier UQ	67.50
Palmerston North LQ	47.22
Palmerston North Median	51.58
Palmerston UQ	60.00
Dunedin LQ	73.33
Dunedin Median	78.79
Dunedin UQ	83.33
Invercargill LQ	75.00
Invercargill Median	76.92
Invercargill UQ	84.40

The relationship between percentage increases (2001-2011) in median rents for a 3 bedroom houses in the main centres and percentage changes in average wages is shown in the chart below. Rental affordability appears to have deteriorated, particularly in Christchurch. Of course to some extent the accommodation supplement subsidies do mitigate affordability for lower income families.



### Investor Risks

The potential danger with rental subsidies is that they distort the rental market and quickly get capitalised into house prices. This will tend to mainly benefit the first generation of landlords selling their rental houses. The risk for current rental housing landlords is when a government is faced with saving money then the accommodation subsidy will be reduced, or at worst eliminated. (Currently the average level of subsidy is around \$72 per week per individual recipient). Since rental affordability is strongly correlated with household income landlords would be faced with lower cash flows and lower property values. Although this scenario seems unlikely it would be relatively easy for a government to cap the accommodation supplement (presently uncapped) by tightening the criteria and linking increases to inflation.

### Rental Levels

The national level of rent increased by \$10 to \$320 per week in December 2011, a new high. This level has been sustained into the first two months of 2012. Over the last 12 months the national level of median rent increased by just 3.2%. A snapshot of rents itemised by the main urban local authorities is shown in the table in the right hand column. Over the last 12 months the strongest demand pressure on rents was in Auckland (up 8.1%), Manukau (up 11.4%), Lower Hutt (up 10%), Nelson (up 10%) and Kapiti (up 8.4%). Smaller annual increases were registered in Papakura (6.0%) and Invercargill (5.0%).

The very low rate of new housing construction over the last few years combined with affordability issues around home ownership seem very likely to maintain pressure on residential rents over the next 12 months.

Median Rents	Feb-11	Nov-11	Feb-12
Whangarei	280	295	290
North Shore	420	420	425
Waitakere	370	360	360
Auckland	370	400	400
Manukau	350	380	390
Papakura	330	350	350
Hamilton	305	300	310
Tauranga	320	320	320
Rotorua	247	250	250
Gisborne	250	270	262
Hastings	285	280	290
Napier	297	280	295
New Plymouth	285	300	300
Wanganui	195	192	200
Palmerston North	260	260	260
Kapiti	295	320	320
Porirua	340	340	350
Upper Hutt	300	310	280
Lower Hutt	300	300	330
Wellington	400	375	410
Nelson	300	315	330
Christchurch	310	297	320
Dunedin	280	285	270
Invercargill	200	200	210
All NZ	310	310	320

### 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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