



NZ Residential Rental Market

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Location and Rents

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DATA SOURCE The private sector rental data is 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.

Theory and Practice

There is an old adage in property that says rents are a function of location. But location with respect to what? Early land economists such as von Thunen attempted to explain land rent in terms of a differential transportation costs. The theory being rents would be highest at a central place and then diminish according to the distance that place. In the case of residential rents distance is perhaps less important than accessibility. For example, one neighbourhood may be relatively close to the central business district but have poor lines of communication with it. On the other hand a more remote neighbourhood may have good motorway access to the central business district. Thus driving time may be a better indicator of rental location values than distance.

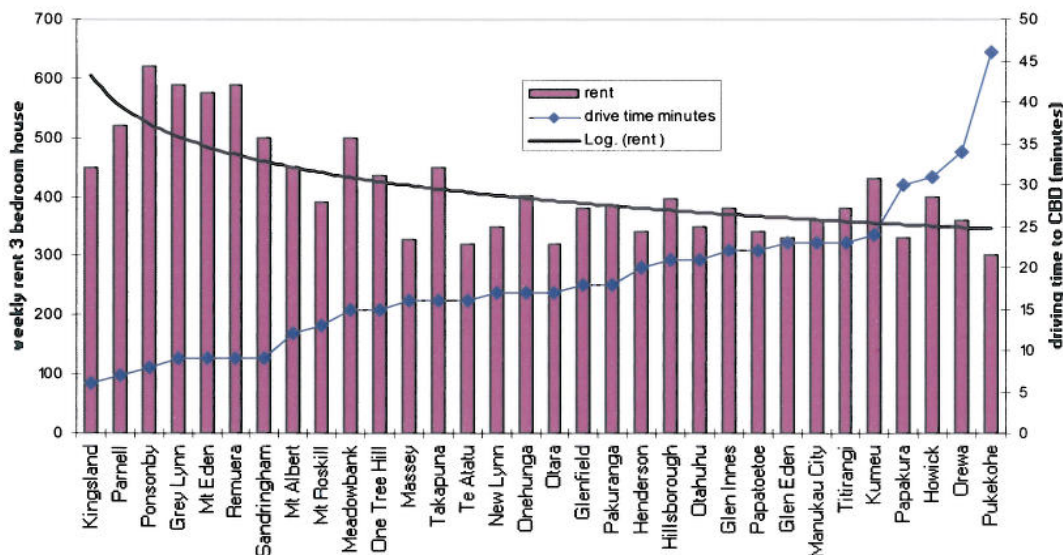
The chart below maps suburban median weekly rental information for three bedroom houses in the Auckland region against driving time to Queen Street. The driving times were measured on Google maps and number 246 Queen Street was chosen as the central place. In this case the theory does fit quite well with market reality. There is an inverse relationship between the weekly residential rents in a suburb and the driving time to the central place. However, commuters familiar with Auckland's rush-hour traffic will be quick to point out the driving times must have been measured at nonpeak hours! .

The relationship between rents and driving time to the CBD is not linear. The Auckland chart has a logarithmic trend line fitted to the rental data. This trend line shows rents dropping off quickly from the central place and then flattening out in the more remote suburbs. The correlation coefficient between the log of rents and driving time is statically significant at 67%. A possible explanation for the non linear rental function relates to traffic patterns being denser and slower around the CBD, the time taken to park and then walk to the workplace and suburbs closer to the CBD having more public transport options.

Clearly there is more to rental settings than just driving time to the Central Business District (CBD). Not everyone works in the CBD and there is significant cross-town traffic. Rents are also influenced by other variables including the quality of housing in the neighbourhood, school zoning, crime statistics, views and neighbourhood recreational amenities.

A similar situation exists in the Wellington region. There is also an inverse relationship between rents and driving time to the central business district. The correlation coefficient between the log of rents and driving time to the CBD is statically significant at 81%. In this case the central point was taken as a parking building near the Parliament. In the case of Wellington the public transportation is better than Auckland's so a relatively small proportion of the working population drive to work.

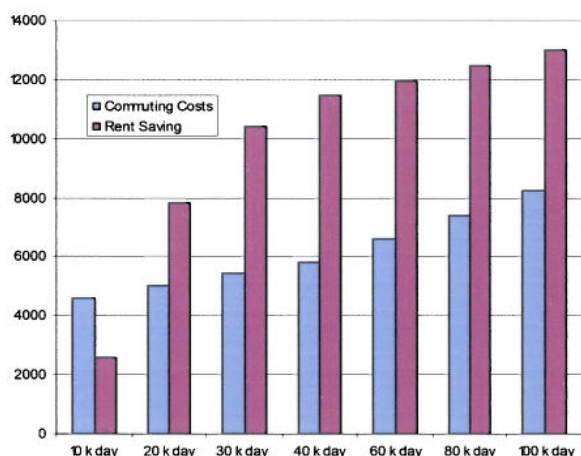
Auckland Rents v Driving Time to CBD



Implications for Policy Makers

The chart below helps to explain the ongoing sprawling nature of the Auckland region. The rent savings by locating further away from the central place are assessed against the additional commuting costs. Rents are based on a three-bedroom house and commuting costs on the 2008 Inland Revenue Department rate allowed for a vehicle up to 1300cc, where the annual fixed costs are \$4214 and a variable cost 16.7 cents per kilometre. The cross-over point where there are financial gains from avoiding medium and long commutes is somewhere between five and ten kilometres away from the central place. Further out the benefits from rent savings outweigh the cost of commuting. This calculation takes no account of the extra time that more remote commuters have to spend in their cars, cost savings that can be achieved through carpooling, public transportation options and increased driving for non-commuting activities. These calculations relate quite well to the 2007 household economic survey conducted by Statistics New Zealand showed that the average Auckland household spent \$148.60 on transportation per week with fuel costs comprising approximately 30% of total costs.

Rent Saving v Commuting Costs



Slight Recovery in Rental Levels

The table at the top right hand column on this page shows rental levels in the main cities over the survey period. Over the last quarter the national median weekly rent increased by 1.69% bringing it back to \$300 per week, where it was in August 2008. However this increase needs to be viewed in the context of the national median rent one year ago also being \$300 per week. While some commentators were predicting rental increases over 2008 the so called "accidental landlords" phenomena increased the supply of rental houses (potential sellers choosing to rent out their houses) was probably not factored into their calculations. There are no real surprises in the rental data. Past results show the Upper Hutt and Porirua medians tend to be rather volatile, possibly due to relatively small private sector sample sizes. Over the last quarter rental rates in the Auckland region showed around a 2% increase, except for Papakura which declined by 4.1%. In the Wellington region the strongest rental growth was at Kapiti with an 11.1% increase over 12 months.

Another part of the rental puzzle concerns vacancy rates. Unfortunately statistics on vacancy rates are not available in New Zealand. Countries that do have vacancy data tend to find vacancies start to go up during recessions as families double up to save money.

Median

Rents	Feb-08	Nov-08	Feb-09
Whangarei	275	270	270
North Shore	400	380	390
Waitakere	325	330	330
Auckland	350	350	360
Manukau	350	350	360
Papakura	320	320	305
Hamilton	285	290	300
Tauranga	300	300	300
Rotorua	215	220	230
Gisborne	240	240	250
Hastings	250	260	250
Napier	280	282	272
New Plymouth			
Wanganui	265	270	280
Palmerston North	185	180	180
North	245	260	250
Kapiti	270	280	300
Porirua	300	280	310
Upper Hutt	285	280	250
Lower Hutt	300	300	300
Wellington	390	350	385
Nelson	285	282	297
Christchurch	300	285	299
Dunedin	250	250	260
Invercargill	190	195	200
All NZ	300	295	300

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. The secretary of the Foundation is Donna Dowse, Phone (06) 357-4032.

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, free on request are:

- 1 The AMP Banking Home Affordability Report (Quarterly)
- 2 Rural Real Estate Market Outlook (Quarterly)
- 3 Auckland Commercial Market Outlook (Quarterly)
- 4 Christchurch Commercial Market Outlook (Quarterly)
- 5 Wellington Commercial Market Outlook (Quarterly)
- 6 Auckland Residential Market Outlook (Quarterly)
- 7 Christchurch Residential Market Outlook (Quarterly)
- 8 Wellington Residential Market Outlook (Quarterly)

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