



NZ Residential Rental Market

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The Case for Building Up, not Out

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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.

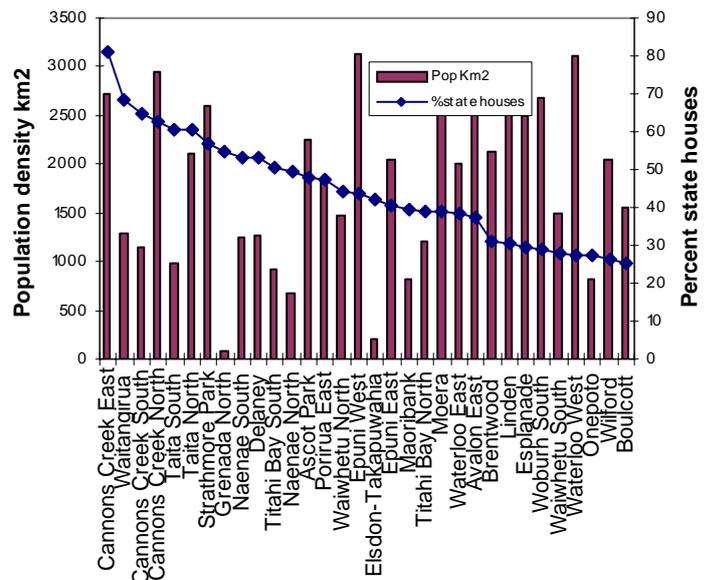
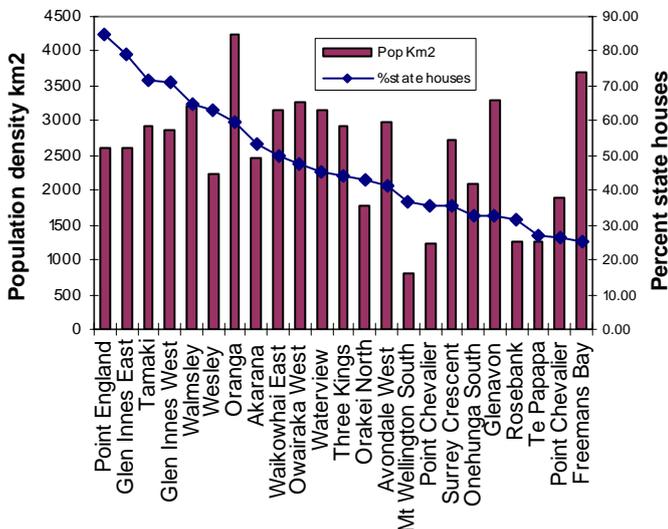
Housing Concerns

The “2007 Quality of Life Report” produced by 12 local authorities showed that although city dwellers are generally happy with their lifestyle there is a concern about the lack of affordable rents and high house prices. In the March 2007 edition of this publication the author outlined a plan to moderate rents and house prices at no cost to the taxpayer by selling off 10% of the state housing stock each year and using the sale proceeds to build the same number of new units. While this idea attracted a certain amount of interest from policy makers it cuts across the philosophy of a government not wanting to be seen selling off housing or moving tenants out from “lifetime” tenancies. Notwithstanding ideological concerns, is there a business case for selling off state houses in areas where the land is unlikely to be wanted for redevelopment and reinvesting in areas of high demand?

The chart below uses census data from Auckland City to map area units having more than 25% state houses against the population density per km². Area units in Auckland’s eastern suburbs such as Point England, Glen Innes and Tamaki have a very high percent of state ownership of low density houses in the second half of their economic life. These factors combined with the appropriate zoning makes such areas ideal for medium density redevelopment. The economics of medium density development are compelling because the underutilised land is already owned by the state. The rating valuations of this state owned land is typically three times the value of the improvements. In the case of a 600m² site in Tamaki where the residual value of the house for moving off site covers the costs of obtaining the necessary consents for

subdivision, building and reserve contributions then all the taxpayer is faced with is the building costs associated with redevelopment. If we assume building costs of \$1500m² and the average size of a new unit at 100m² then the average cost of a new unit is \$150,000. The conservative average sale price of existing houses (house and land) is estimated at \$220,000 which is more than sufficient to cover the cost of the new unit.

The Wellington area has similar potential for redeveloping older state housing neighbourhoods located in prime positions in relation to the central business area and industrial parks. The chart below maps area units with more than 25% state houses against the population density per km².

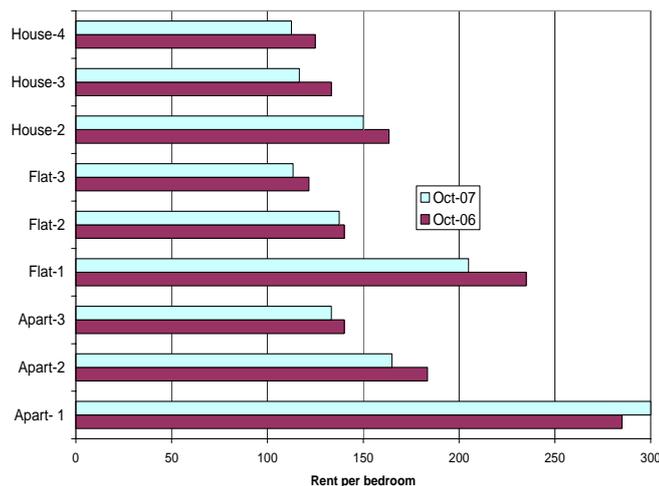


The Crown as a Catalyst

There is a temptation for central government to stand back from issues of housing affordability and leave the market to resolve issues of housing density. However, New Zealand has a long tradition of the state buying land in advance of development and then building rental houses on it. In the case of redevelopment central government has the unique advantage of owning prime sites ripe for redevelopment. Furthermore these sites are large enough so that genuine economies of scale would help to reduce building costs and overcome piecemeal development. It would take many years for private sector developers to assemble comparable sized sites because the residents may become litigious and typically exhibit “not in my back yard” tendencies. Without the powers of compulsory acquisition it only requires one or two owners of key sections to refuse to sell and the developers plans have to be put on hold.

Rent per Bedroom

The chart below utilises detailed tenancy bond information to show the median rent per bedroom for the main classes of rental property in Auckland City. The number after the type of property on the vertical scale denotes the number of bedrooms. The snapshots of the Auckland City rental market are in October 2006 and October 2007. Although weekly rent per bedroom is a useful rule of thumb the chart makes it clear that for each class of property (house, flat and apartment) the rent per bedroom reduces as the number of bedrooms increases. Similarly there is a trade off between location and space when houses are compared to apartments. In this case renters are prepared to pay more per bedroom for smaller inner city apartments when compared with larger suburban houses.



Rental Levels Move Up

During the last quarter the weekly national level of median rent moved from \$280 in September to \$285 in October and then \$290 in November 2007. On an annual basis the national median was up by 7.4% compared with November 2006. On a quarterly basis the national median continued to stay ahead of inflation increasing by 3.5% from August 2007 to November 2007. A snapshot of rents in the main Territorial Local Authorities (TLAs) over the period November 2006 to November 2007 is shown in the table at the top right.

Cities showing the largest annual increases were Hastings 13.6%, Christchurch 11.5%, Whangarei 10.2% and Rotorua 10%. Increases in the Auckland region were generally more modest and in the 3-6% range. On a quarterly basis the greatest rental increases were in Lower Hutt 11.5%, Dunedin and Palmerston North each 8.7% and Whangarei 8%. In the Auckland region rents were generally static except for Auckland City (2.9% increase). Thus the recent national median rental increases appear to be driven mainly from the lower half of the North Island and the South Island.

Increases in rents over the last quarter are most likely partially attributable to demand pressure from net migration and potential first home buyers who are remaining in the rental market for longer than expected. On an annual cash flow basis (excluding capital gains) renting is now typically less than half the cost of owning. This means when house prices are static or falling there is much less pressure on renters to buy.

Median Rents

| | Nov 06 | May 07 | Nov 07 |
|------------------|--------|--------|--------|
| Whangarei | 245 | 250 | 270 |
| North Shore | 350 | 370 | 370 |
| Waitakere | 300 | 320 | 320 |
| Auckland | 330 | 340 | 350 |
| Manukau | 320 | 330 | 330 |
| Papakura | 285 | 300 | 300 |
| Hamilton | 265 | 280 | 280 |
| Tauranga | 280 | 290 | 295 |
| Rotorua | 200 | 210 | 220 |
| Gisborne | 212 | 215 | 220 |
| Hastings | 220 | 242 | 250 |
| Napier | 260 | 260 | 270 |
| New Plymouth | 242 | 250 | 240 |
| Wanganui | 180 | 190 | 190 |
| Palmerston North | 240 | 230 | 250 |
| Kapiti | 250 | 265 | 275 |
| Porirua | 240 | 290 | 300 |
| Upper Hutt | 210 | 242 | 220 |
| Lower Hutt | 250 | 260 | 290 |
| Wellington | 330 | 350 | 350 |
| Nelson | 250 | 272 | 270 |
| Christchurch | 260 | 275 | 290 |
| Dunedin | 245 | 230 | 250 |
| Invercargill | 170 | 180 | 180 |
| All NZ | 270 | 280 | 290 |

Massey University Property Foundation

The foundation is established to sponsor research and education in property related matters in New Zealand. The Chairman of Trustees is Mr Bill Cleghorn. 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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