



**Massey  
University**

# NZ Residential Rental Market

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## Is a Baby Boomer Housing Bust Looming?

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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.

Headlines in 'The Economist' (January 17th, 2008) warned readers of a bust in house prices in the USA when the baby boomer generation (those born between 1946-1964) begin to sell their houses and move into retirement homes.

The argument for reductions in house prices is basically about demographics. It goes something like this – The baby boomer generation represents a population bulge that isn't replicated in the younger (baby bust) generation who might be expected to live in the houses vacated by the baby boomers. Quite simply there are likely to be more sellers than buyers, hence price reductions. Furthermore the generation who might be expected to purchase houses vacated by baby boomers will not be able to afford them.

New Zealand has a similar demographic to the US in terms of the age structure of the population and fertility. The following factors are advanced by the author as reasons why a baby boomer housing bust is unlikely to happen in New Zealand in the foreseeable future.

### 1: Demographic Projections

As the population of New Zealand continues to increase so will the number of house buyers. The Statistics NZ population clock estimates show the population (currently 4.25 million) will reach 5 million in the late 2020's and is increasing at the rate of around one percent per year. Deaths are expected to exceed births around 2050, but the total population is expected to continue to increase due to positive net migration. Net migration is a key variable in the New Zealand context because it is such a volatile statistic and in some years has exceeded the natural rate of population increase. The volatility of net migration is driven by government policy settings and the economic conditions in New Zealand compared with other countries. Positive migration helps to ensure the economy keeps growing and helps to take care of the developing shortage of skills across a wide range of disciplines. In addition new migrants typically bring new capital into the country.

### 2. Occupancy Rates

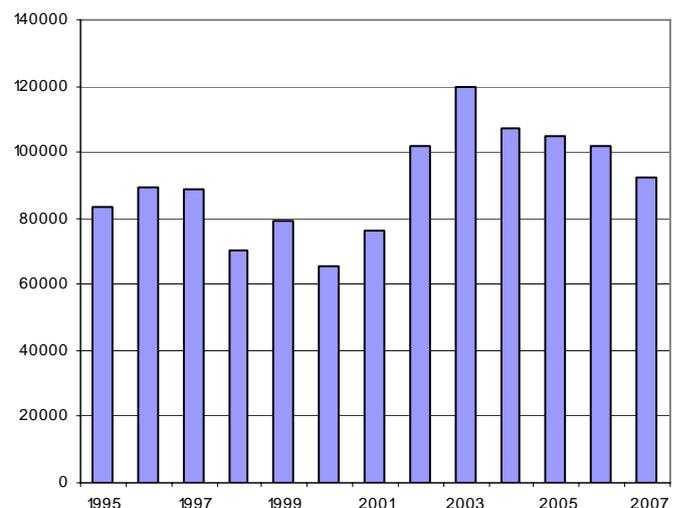
Even if the New Zealand population remains static more houses will be needed if the trend of more solo parents and single person households continues, reducing average occupancy per household. This is a trend in a number of western countries. Census data shows the average occupancy per household unit was 2.84 persons in 1991 and this had decreased to 2.73 by 2006.

### 3. Housing Market Supply

The market reaction to a reduced demand for housing is simply to stop building so many new houses. Approximately 73% of sales (expected to average 90,000 annually) are typically second hand dwellings and 27% new houses and apartments. Data on residential building activity over the last decade shows annual new dwelling volumes fluctuating by more than 10,000 (50%) between years 2000 and 2004. Housing supply cannot react instantly to reduced demand as once a new building is started the developer is usually contracted to complete it. Conversely, if demand increases due to new migration policies developers may take up to a year to respond due to delays in obtaining council approvals, the construction period and shortages of material and labour.

Housing supply is influenced by the number of second hand house on the market as well as new housing supply. Typically, in a downturn a proportion of sellers take their properties off the market and wait for conditions to improve. The rationale for withdrawing properties from the market is that vendors have certain expectations about what their house is worth and are reluctant to sell at a lower price. Baby boomers usually have more flexibility with timing house sales than people moving jobs or towns.

The chart below shows annual sales reported by the Real Estate Institute from 1995 to 2007. The increase in total sales volume by 82% from 2000 to 2003 further confirms the elastic nature of housing supply response to price signals.



#### 4. Investor Buyers

First home buyers are not the only buyers for the houses that the baby boomers are likely to vacate. Existing home owners still climbing the property ladder are potential purchasers as are families purchasing rental houses for investment purposes. About 80% of rental accommodation is provided by private sector landlords. Investor housing will become even more important as the percentage of households who are owner occupiers continues to decrease at the rate of between 0.5%-0.75% per year.

#### 5. Retirement In Place

Changes in the overall health and well being of the baby boomer generation means that retirement at age 65 is no longer a given. Most of these people will retain a family home, some of them may downsize into a home unit, townhouse or apartment. Usually this will be in the localities where they have long term contacts and family connections. It is much less expensive to the taxpayer and in line with OECD policies if older people are encouraged to "age in place". Financial products such as reverse annuity mortgages have made it possible for baby boomers to help finance their retirement by drawing down some of the equity built up in the family home.

#### 6. Intergenerational Transfers

A doubling of house prices from 2002 to 2007 has made housing increasingly unaffordable. So how are the children of the baby boomers managing to buy houses? Anecdotal evidence suggests a proportion of Mum and Dad baby boomers are helping their baby bust children into housing by paying all or part of the deposit, perhaps taking a share of the ownership and in some cases acting as a guarantor for the mortgage payments. Statistics on this type of wealth transference are not readily available but it is clear the baby bust generation are getting help from somewhere.

Another way the baby boomers are transferring wealth to their baby bust generation children is by establishing family trusts. Typically the family home is put into a trust with the children being the beneficiaries of the trust and the parents gradually gifting their interests to the trust. The trust is usually arranged so the parents have lifetime occupancy of the family home. Approximately 10% of dwellings are owned by family trusts.

#### 7. Incomes Rising

International competition for skilled workers coupled with a strong local economy will maintain pressure on wages and salaries. This will assist the baby bust generation to afford to purchase houses. New Zealand is in the fortunate position of being able to supply quality food products to overseas markets faced with a shortage of protein products. The prices for food products seems likely to increase in the medium term due to the competition for land from the bio fuel industry. This should maintain our strong local economy.

#### Rental Levels Continue To Move Up

Over the last quarter the national median weekly rent moved up 3.4%, from \$290 to \$300. On an annual basis the national median was up 7.1% compared with February 2007. The table at the top right shows a snapshot of rents in the main Territorial Local Authorities over the period February 2007 to February 2008. Areas showing the greatest 12 month increases included Invercargill 18.7%, Lower Hutt 15.3% and Napier 12%. Readers should treat the Upper Hutt figures with caution due to the small sample size. North Shore 11.1% growth over 12 months was ahead of the other Auckland region cities with Waitakere 8.3%, Manukau 6% and Auckland 4.4%.

#### Median Rents

|                         | Feb 07 | Nov 07 | Feb 08 |
|-------------------------|--------|--------|--------|
| <i>Whangarei</i>        | 250    | 270    | 275    |
| <i>North Shore</i>      | 360    | 370    | 400    |
| <i>Waitakere</i>        | 300    | 320    | 325    |
| <i>Auckland</i>         | 335    | 350    | 350    |
| <i>Manukau</i>          | 330    | 330    | 350    |
| <i>Papakura</i>         | 300    | 300    | 320    |
| <i>Hamilton</i>         | 270    | 280    | 285    |
| <i>Tauranga</i>         | 280    | 295    | 300    |
| <i>Rotorua</i>          | 210    | 220    | 215    |
| <i>Gisborne</i>         | 230    | 220    | 240    |
| <i>Hastings</i>         | 240    | 250    | 250    |
| <i>Napier</i>           | 250    | 270    | 280    |
| <i>New Plymouth</i>     | 250    | 240    | 265    |
| <i>Wanganui</i>         | 175    | 190    | 185    |
| <i>Palmerston North</i> | 235    | 250    | 245    |
| <i>Kapiti</i>           | 245    | 275    | 270    |
| <i>Porirua</i>          | 280    | 300    | 300    |
| <i>Upper Hutt</i>       | 222    | 220    | 285    |
| <i>Lower Hutt</i>       | 260    | 290    | 300    |
| <i>Wellington</i>       | 360    | 350    | 390    |
| <i>Nelson</i>           | 265    | 270    | 285    |
| <i>Christchurch</i>     | 275    | 290    | 300    |
| <i>Dunedin</i>          | 250    | 250    | 250    |
| <i>Invercargill</i>     | 160    | 180    | 190    |
| <i>All NZ</i>           | 280    | 290    | 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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