



NZ Residential Rental Market

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Rental Volumes Strong, Prices Dip

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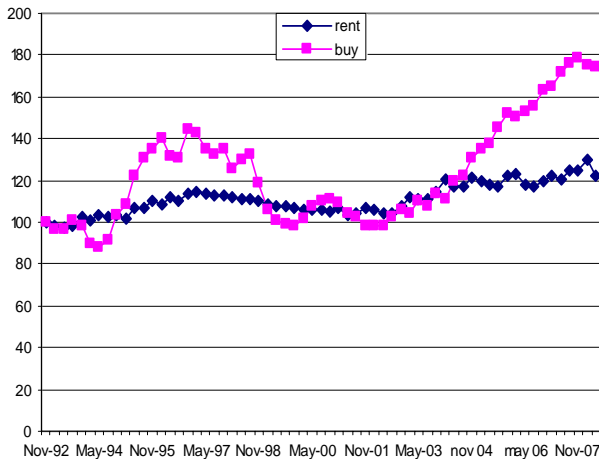
DATA SOURCE The private sector rental data is supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate Institute and Quotable Value NZ statistics.

Rents Down

The national level of median rent dipped slightly in May to \$295 per week, down from a previous record high of \$300 per week. This result was somewhat unexpected as rents had been rising steadily during 2007 and the first quarter of 2008. Decreases in rents appear to have occurred mainly in the South Island. Details on Local Authority rents are on page 2. Further analysis will be required to see if this reduction in the national median rent is a compositional issue (with the data showing increased numbers of multiple bonds for the same property) or due to an increased supply of rental properties. Several commentators have recently noted that a significant number of would be vendors have withdrawn houses from the market and are choosing to rent them out instead. The drop off in the volume of house sales of around 50% compared to 2007 appears to reinforce the renting instead of selling theory.

Rental Affordability

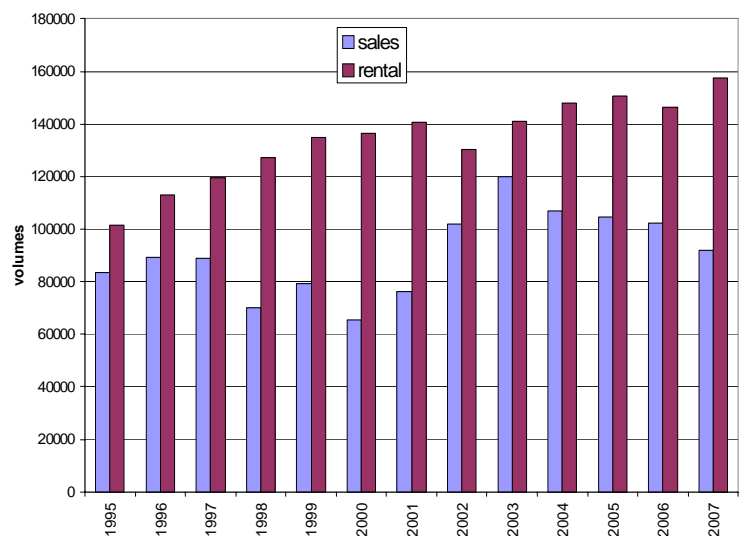
The chart below compares rental versus ownership affordability over the period 1992-2008. Both indices are set to a common base in November 1992. Rental affordability is calculated using average wages and median rents and ownership using the Massey home affordability series (wages, house prices and interest rates).



Clearly, rental affordability is a less volatile statistic than owning. In the short run, as house prices decline, renting may be a more attractive option for some households than buying. However, in the medium term history shows buying is normally the most attractive option, particularly when the period of ownership is over five years.

Volumes

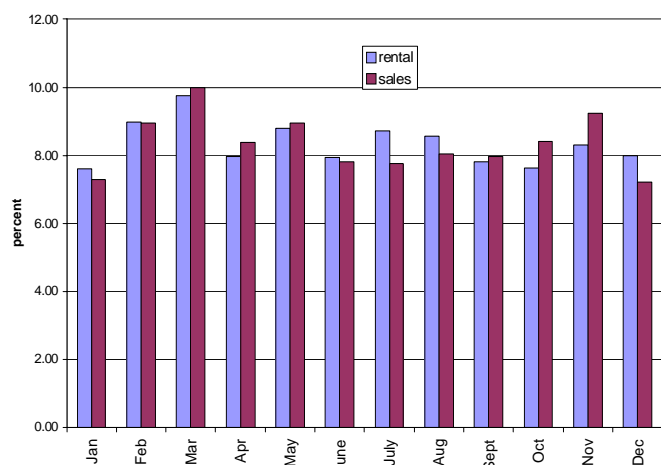
The chart below shows the annual volume of house sales and the number of new rental tenancies over the period 1995-2007. The steady growth in rental tenancies over this period reflects the gradual decline on the home ownership rate over time. It is acknowledged that the volume of new tenancies is influenced by the churn rate (which is not necessarily consistent over time) and multiple bonds for one property.



Seasonality

From time to time spokespersons from the real estate industry have highlighted the seasonal nature of the real estate market and talked about climatic factors and the “spring market” for houses. To some extent the house sales statistics do show that climatic factors influence sales volumes, but the jury is still out on the price effects. There is for example a more marked seasonal effect in Invercargill than there is in Whangarei. This results in the percentage of annual sales during the winter months being lower in Invercargill than it is in Whangarei.

The chart below uses national data to show the average monthly percent of total annual house sales and new tenancies over the period 1995-2007. These figures suggest that the peak selling and renting period is the autumn rather than the spring. The standard deviation of monthly house sales over the period was 0.82% and for rental tenancies 0.64%.



Low volumes in December and January relate to the holiday period and are particularly apparent in January when a number of law firms are shut down. The autumn spike in both sales and rentals does not carry over into the spring for rentals. Spring is the second peak for home sales but rental transactions are typically higher in the winter months.

Rental Levels

Over the last quarter the national median weekly rent fell by 1.6%. On an annual basis the national median was up 5.36% compared with May 2007. The table at the top right shows a snapshot of rents in the main Territorial Local Authorities over the period May 2007 to May 2008. Areas showing the greatest 12 month increases included Lower Hutt 15.3%, Whangarei 12.0% and Napier 12%. North Shore with 8.1% growth over 12 months was ahead of the other Auckland region cities with Auckland City 5.8%.

The compositional issue in the data mentioned on page one is most apparent with the Wellington city data which shows an usually large number of single tenancies for rooms in May 2007. The net result is that readers should treat the Wellington 2008 median with caution.

Apartments

The table below compares Auckland and Wellington apartment rents from May 2007 to May 2008. The Wellington market currently appears more robust, possibly due to ongoing oversupply issues in parts of the Auckland apartment market.

| | | May-07 | May-08 |
|------------|-------|--------|--------|
| Auckland | 1-bed | 300 | 280 |
| | 2-bed | 360 | 360 |
| | 3-bed | 450 | 435 |
| Wellington | 1-bed | 300 | 288 |
| | 2-bed | 400 | 522 |
| | 3-bed | 540 | 600 |

Median Rents

| | May-07 | Feb-08 | May-08 |
|------------------|--------|--------|--------|
| Whangarei | 250 | 275 | 280 |
| North Shore | 370 | 400 | 400 |
| Waitakere | 320 | 325 | 330 |
| Auckland | 340 | 350 | 360 |
| Manukau | 330 | 350 | 340 |
| Papakura | 300 | 320 | 320 |
| Hamilton | 280 | 285 | 290 |
| Tauranga | 290 | 300 | 310 |
| Rotorua | 210 | 215 | 225 |
| Gisborne | 215 | 240 | 240 |
| Hastings | 242 | 250 | 250 |
| Napier | 260 | 280 | 285 |
| New Plymouth | 250 | 265 | 280 |
| Wanganui | 190 | 185 | 195 |
| Palmerston North | 230 | 245 | 250 |
| Kapiti | 265 | 270 | 280 |
| Porirua | 290 | 300 | 310 |
| Upper Hutt | 242 | 285 | 270 |
| Lower Hutt | 260 | 300 | 300 |
| Wellington | 350 | 390 | 270 |
| Nelson | 272 | 285 | 280 |
| Christchurch | 275 | 300 | 290 |
| Dunedin | 230 | 250 | 242 |
| Invercargill | 180 | 190 | 200 |
| All NZ | 280 | 300 | 295 |

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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