

NZ Residential Rental Market

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Rental Movements

DATA SOURCE This index has been developed from private sector rental data supplied by the Ministry of 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.

Implications of Government Intervention

One of the questions concerning private sector property investors is the effect of government intervention on private sector rents. Over the last decade we have seen the movement of State House rentals to market levels under a National administration and more recently the reversal of this policy back to income related rents under a Labour led administration. The graph below tracks the ratio of lower quartile to upper quartile private sector rental indices over time for 4 cities and all New Zealand. The indices were all set at 1 for October 1992. Where the line on the graph is above 1 this means lower quartile rents were rising faster than upper quartile rents. The approximate percentage of State Houses in these cities are Manukau (34), Porirua (36), Auckland (21) and Wellington (10). Lower quartile private sector rents in Manukau and Porirua moved up faster than upper quartile rents over the 1992-1997 period. Since then they have come back into line with upper quartile rents.

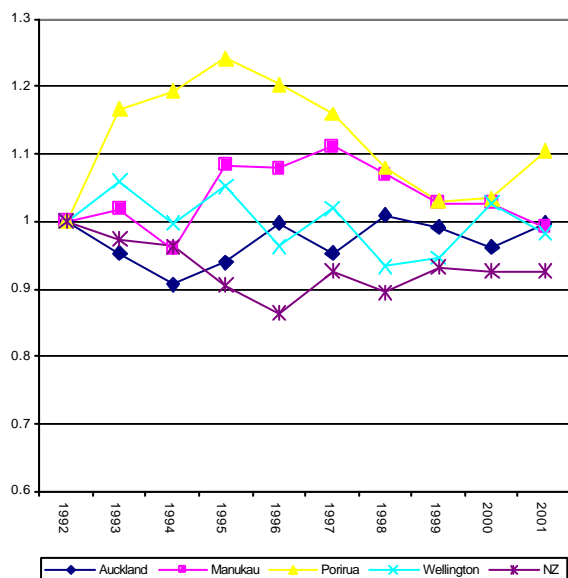
In Auckland and Wellington lower and upper quartile rents moved more or less in tandem over the 1992-2001 period. Interestingly, the move to income related rents for State Houses does not appear to have had the anticipated negative effect on lower quartile private sector rents.

Anecdotal evidence suggests that one of the consequences of income related rents was to reduce occupancy levels in State Houses. Further, relatively few new state units have been added, state waiting lists are long and the accommodation supplement has been maintained for private sector rentals. These factors appear to have sustained rental levels for lower quartile private sector properties.

Rental Levels

A snapshot of recent rental levels in the main centres is shown below. The national median rent has moved up from \$190 per week to \$200 per week. This increase after a long period where the national median rent was static. As expected the most significant increases occurred in Auckland City where rents were up 7% on a year to year basis.

Ratio of Lower Quartile to Upper Quartile Private Sector Rental Indices



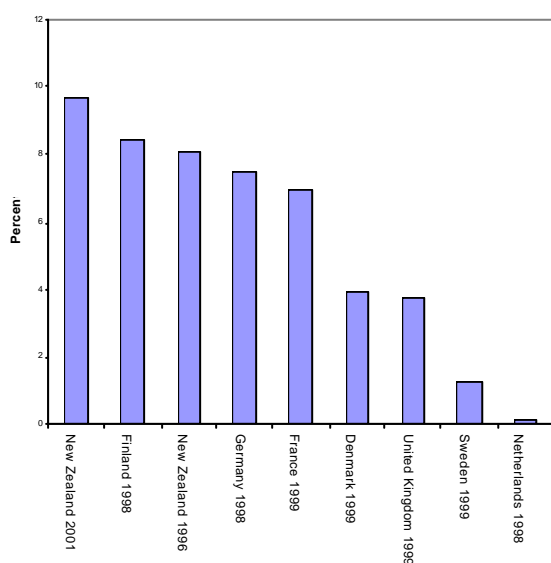
	Jan-01	Nov-01	Jan-02
Whangarei	170	170	170
North Shore	260	270	270
Waitakere	240	240	240
Auckland	260	275	280
Manukau	240	250	250
Papakura	210	250	237
Hamilton	180	190	190
Tauranga	185	190	200
Rotorua	155	160	165
Gisborne	150	150	150
Hastings	165	160	160
Napier	170	172	175
New Plymouth	135	150	140
Wanganui	125	125	125
Palmerston North	175	185	180
Kapiti	190	200	195
Porirua	185	190	210
Upper Hutt	160	162	180
Lower Hutt	200	200	200
Wellington	250	260	265
Nelson	180	185	185
Christchurch	180	185	185
Dunedin	160	160	165
Invercargill	120	110	125
All NZ	190	200	200

Increased levels of rent seem to be fairly widespread, particularly in localities showing above average population growth. Pressure on rents appears to be a result of increased house sales to first home buyers, wage increases, net migration gains and the undoubling effect. Undoubling occurs when the economy is doing well and young people move out from their parents house and set up their own flats.

Unoccupied Housing

Economists are concerned with the efficient use of housing resources. From a national perspective one of the ways to make best use of existing housing is to minimise the vacancy factor. Real estate markets all have what is known as a natural vacancy factor caused by the time it takes for people to change houses, refurbishment and down time between tenants etc. It is difficult to achieve more than 97% occupancy. The graph below compares NZ statistics from 1996 and 2001 census data with several EU countries. Clearly, there are significant differences between countries. Further, there is room for improvement in the NZ vacancy factor which is on the high end and has been getting worse. For example, halving the 2001 vacancy rate in NZ would free up around 73,000 units to house about 200,000 people. This is the equivalent of 4 years supply of new housing. Is this achievable? Based on comparisons with EU countries, perhaps yes but not immediately. Always remembering these statistics include second homes, bachs, cribs etc. Also, housing demand is very location specific and an empty house in Invercargill does not solve a shortfall in Auckland. The table to the right shows the percentage of unoccupied housing by selected TLA's from 1991-2001. Auckland City figures include Waiheke Island where 32% of houses were unoccupied on census night 2001.

Vacant Dwellings
(% total housing stock)



	1991	1996	2001
Rodney	27.9	12.7	14.9
North Shore	5.1	4.1	5.5
Waitakere	6.1	4.1	6.1
Auckland	8.0	5.9	7.3
Manukau	5.2	3.6	5.1
Papakura	5.1	2.9	5.8
Thames/Coromandel	44.6	41.7	44.5
Hamilton	4.7	3.8	5.8
Tauranga	10.2	8.3	9.2
Taupo	29.3	26.8	29.2
Napier	4.6	4.2	5.2
Palmerston North	4.7	5.1	5.6
Kapiti	17.7	13.3	14.2
Porirua	4.9	6.1	5.1
Upper Hutt	5.5	5.3	6.0
Lower Hutt	5.7	4.8	5.7
Wellington	6.8	4.9	6.8
Nelson	5.3	5.3	5.5
Christchurch	5.0	4.5	5.8
Dunedin	7.2	7.1	7.7
Southern Lakes	40.9	33.7	32.7
Invercargill	5.6	5.8	7.1

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 Gordon Davies. 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. Claire-Phillips is the Secretary/Treasurer. She may be contacted on (06) 350-5799 Ext 2321 or 025 246-2347.

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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