

NZ Residential Rental Market

March 2011

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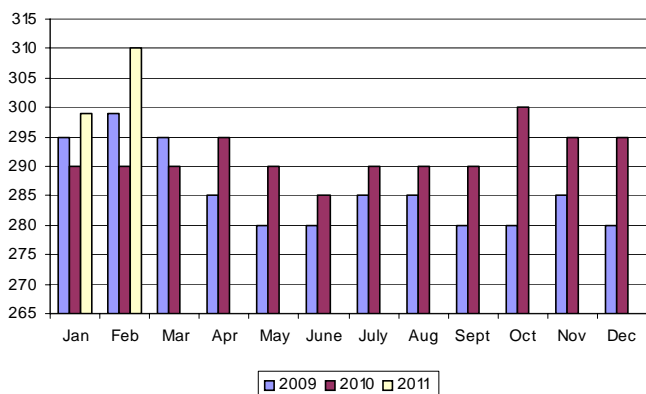


Christchurch

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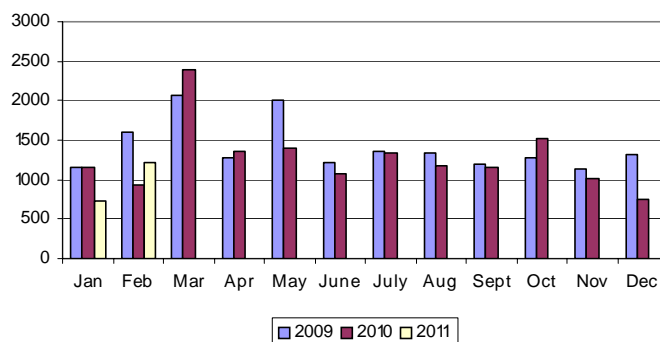
DATA SOURCE This index has been developed from private sector rental data supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted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

The recent earthquakes in Christchurch resulted in considerable damage to some residential rental properties. Media reports of landlords asking excessive rentals for undamaged properties have been denied by a spokesperson for the landlords. There has been a call from some people to impose rent controls. To date the evidence is unclear. The first chart below shows the median Christchurch private sector residential rents from January 2009 to February 2011. The Christchurch rental data below does not reflect the full impact of the February 22 “aftershock” which caused the most property damage. The apparent “spike” in Christchurch rents in February 2011 is in line with the national trends reported on page 2 of this publication.

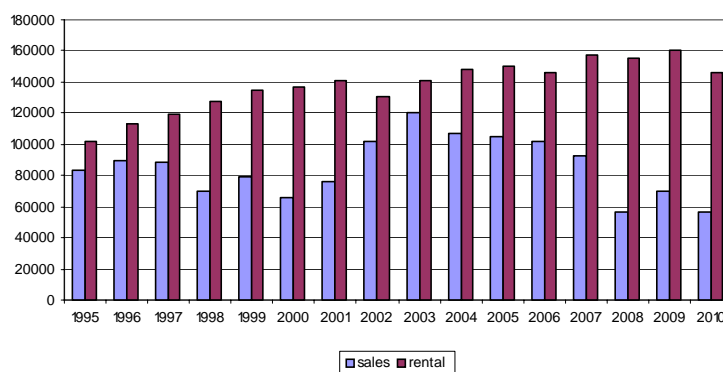


From a tenants point of view the call for rents controls is understandable in times of national emergencies. However, history shows controlling rents tends to make things worse in the medium and long term because it restricts supply and compromises the operation of the market. For example, many landlords in Christchurch with damaged buildings have lost their tenants who have moved away. The economics of reinstating damaged buildings and maintaining the supply of rental housing are very dependant on the level of rents that can be achieved. When rent controls were imposed for a time during Sir Robert Muldoon's government it was noticeable that a number of landlords sold up and withdrew from the rental market. Other landlords simply let their properties run down by avoiding normal maintenance.

Adverse events such as the Christchurch earthquake may also effect the volume of rental transactions because some damaged houses will not be fit for habitation. The chart below shows the monthly volume of new rental tenancies for Christchurch over the period January 2009 to February 2011. It is noticeable that the volume of new tenancies reduced since the first earthquake in September 2010. However the reduction in rental volumes is not just confined to Christchurch, indicating that other factors are at work.



Other factors influencing the volume of new tenancies include the rate of new household formation, the tenant turnover rate for rental houses and the state of the overall economy. The chart below tracks both the national volume of new tenancies and the annual volume of house sales during the period 1995 to 2010.



The very low volume of house sales since 2007 means fewer houses on the market that might be suitable for conversion from owner occupier to rental tenancy. In addition, tax changes in 2010 have had a significant negative effect on the profitability of rental housing investment, thus restricting the supply of rental housing in a market where the number of renters continues to increase. To date rental increases have been moderated by the ability of households to “double up” and utilise the existing rental housing stock more efficiently. Also recent reductions in net migration has reduced the overall demand for rental accommodation.

Rents Increase

The national level of rent increased by 3.3% over the quarter ending February 2011. Quarterly rental increases were led by Upper Hutt (16.3%), Hastings (14%), Waitakere (5.1%) and Christchurch (5%). Upper Hutt and Hastings data should be treated with caution due to the small volume of transactions. On an annual basis the national level of rental increases was also 3.3%. Annual rental increases were led by Dunedin (11.1%), followed by Waitakere (8.8%), Rotorua (7.3%), Christchurch (6.9%), North Shore (6.3%) and Auckland(2.7%). The table in the right hand column compares current rents with the previous quarter and the same period last year.

The earthquakes have also resulted in a considerable outflow of people from Christchurch unable to return to their damaged homes. Time will tell how much of this internal migration is permanent but it is highly likely additional pressure on the rental market will begin to show up in other centres, particularly in Auckland.

| Median Rents | <i>Feb-10</i> | <i>Nov-10</i> | <i>Feb-11</i> |
|-------------------------|---------------|---------------|---------------|
| <i>Whangarei</i> | 280 | 280 | 280 |
| <i>North Shore</i> | 395 | 420 | 420 |
| <i>Waitakere</i> | 340 | 350 | 370 |
| <i>Auckland</i> | 360 | 360 | 370 |
| <i>Manukau</i> | 375 | 350 | 350 |
| <i>Papakura</i> | 320 | 330 | 330 |
| <i>Hamilton</i> | 300 | 295 | 305 |
| <i>Tauranga</i> | 310 | 315 | 320 |
| <i>Rotorua</i> | 230 | 240 | 247 |
| <i>Gisborne</i> | 240 | 250 | 250 |
| <i>Hastings</i> | 270 | 250 | 285 |
| <i>Napier</i> | 290 | 280 | 297 |
| <i>New Plymouth</i> | 297 | 290 | 285 |
| <i>Wanganui</i> | 210 | 200 | 195 |
| <i>Palmerston North</i> | 250 | 275 | 260 |
| <i>Kapiti</i> | 280 | 300 | 295 |
| <i>Porirua</i> | 340 | 330 | 340 |
| <i>Upper Hutt</i> | 290 | 257 | 300 |
| <i>Lower Hutt</i> | 310 | 300 | 300 |
| <i>Wellington</i> | 400 | 390 | 400 |
| <i>Nelson</i> | 300 | 300 | 300 |
| <i>Christchurch</i> | 290 | 295 | 310 |
| <i>Dunedin</i> | 252 | 270 | 280 |
| <i>Invercargill</i> | 200 | 210 | 200 |
| <i>All NZ</i> | 300 | 300 | 310 |

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. Donna Dowse is the Secretary/Treasurer. She may be contacted on 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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