



NZ Residential Rental Market

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Tracking Rents

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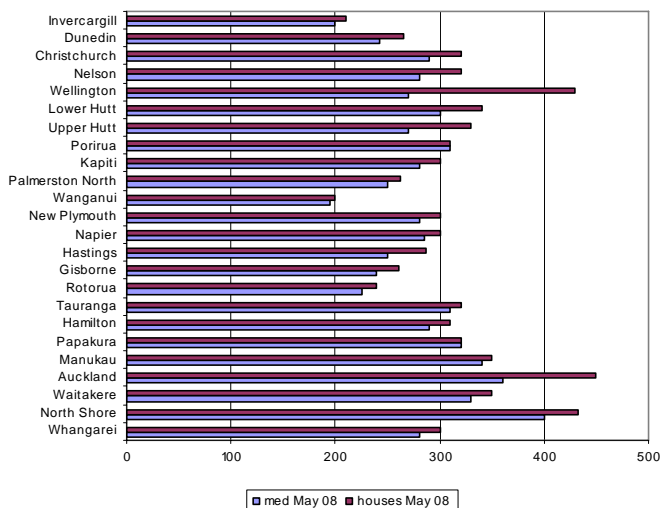
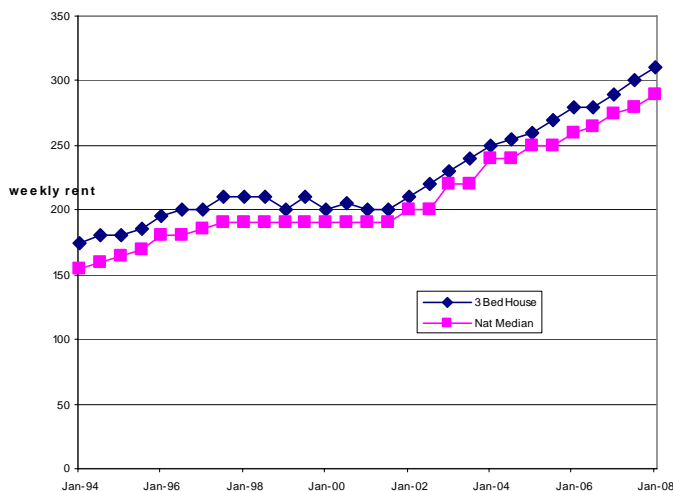
DATA SOURCE The private sector rental data is supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate Institute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

The Median Methodology: Median rents are used in the rental statistics published by the Department of Building and Housing. By and large the median statistic is a useful way of tracking rents. The information is timely and the large numbers of new tenancy bonds registered each month overcome most compositional problems. However, the median statistic can be skewed in months when there is an usually large number of high end or low end rental transactions. For example, some rental dwellings now have multiple bonds. This situation may occur where unrelated parties are all living in the same house, such as a student flat. In some instances unusually large numbers of multiple bonds are being reported in single month, resulting in the median rent for that particular city decreasing when in fact rents may actually be increasing.

It is sometimes said that all real estate markets are local. When city wide rents are reported for all classes of residential rental properties this raises several questions. For example, in Auckland City to what extent do apartment rents influence the overall median? Are changes in the city wide median rent in other centres representative of the rentals for three bedroom houses? The chart below takes a snapshot of median rents from a number of cities and compares them with the median rent for three bedroom houses, the largest single group of rental dwellings.

Apart from Auckland and Wellington cities where the housing stock comprises of a smaller proportion of three bedroom houses overall median rents is at similar, but slightly lower levels (7.5% on average), compared with houses.

The chart below compares the national median rents with the rent for three bedroom houses over the period January 1994 to January 2008. Clearly, the two sets of data are strongly related showing a correlation coefficient of .98. From this we can conclude the national median reflects the overall market for stand alone houses.



Constant Quality Issues: When tracking rents over time it is important to compare like with like. The statistical problem is that as the rate of home ownership drops, the overall quality of rental housing improves. This is because additions to the rental housing stock is mainly from the conversion of existing owner occupied housing. There is little new rental housing being built.

The best way to overcome the constant quality problem is to use repeated rents where the same properties are re-rented over time. Research carried out by the author and Mike Chen in 2000 showed median rents tended to slightly overstate rental increases over time. However, repeated rent methodology does have statistical difficulties because there is often a paucity of repeated rents in the most recent period leading to delays in being able to publish the index.

Alternative Data Series: Rental information is an important component of the consumer price index (CPI). Statistics NZ surveys a sample of landlords each quarter and obtains average rental data from a relatively small quality adjusted sample frame. From the view point of estimating the CPI this methodology is soundly based but it will not reflect current market rents, except in a static market. Thus when the rental market is moving up or down, average rents will lag market rents by a number of months because the rental data reported is just an average of historical rental settings. From a landlords perspective the best time to change the rent is when there is a change of tenants. Renters do move much more frequently than owner occupiers so the lag effect will typically be less than 12 months. On balance market based rents are in used in this publication and preferred over average rents because they capture what is happening at the margin and are reported monthly in a timely fashion.

Rental Levels: Over the last quarter the national median weekly rent increased by 1.6% bringing it back up to \$300 per week, a level last seen in April 2008. The strength in the rental market is clearly outside the main centres because 16 of the 24 cities shown in the table at the top right hand column on this page showed either static or negative rental growth over the last quarter. The Wellington median data is an aberration due a large number of single room bonds resulting in compositional issues .

On an annual basis the national median was up 7.14% compared with August 2007.

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

		<i>Aug-07</i>	<i>Aug-08</i>
<i>Auckland</i>	<i>1-bed</i>	<i>300</i>	<i>300</i>
	<i>2-bed</i>	<i>369</i>	<i>380</i>
	<i>3-bed</i>	<i>460</i>	<i>530</i>
<i>Wellington</i>	<i>1-bed</i>	<i>235</i>	<i>300</i>
	<i>2-bed</i>	<i>370</i>	<i>450</i>
	<i>3-bed</i>	<i>517</i>	<i>522</i>

Median Rents

	<i>Aug-07</i>	<i>May-08</i>	<i>Aug-08</i>
<i>Whangarei</i>	<i>260</i>	<i>280</i>	<i>270</i>
<i>North Shore</i>	<i>370</i>	<i>400</i>	<i>395</i>
<i>Waitakere</i>	<i>320</i>	<i>330</i>	<i>330</i>
<i>Auckland</i>	<i>350</i>	<i>360</i>	<i>350</i>
<i>Manukau</i>	<i>330</i>	<i>340</i>	<i>350</i>
<i>Papakura</i>	<i>300</i>	<i>320</i>	<i>312</i>
<i>Hamilton</i>	<i>280</i>	<i>290</i>	<i>282</i>
<i>Tauranga</i>	<i>290</i>	<i>310</i>	<i>300</i>
<i>Rotorua</i>	<i>210</i>	<i>225</i>	<i>230</i>
<i>Gisborne</i>	<i>230</i>	<i>240</i>	<i>240</i>
<i>Hastings</i>	<i>240</i>	<i>250</i>	<i>270</i>
<i>Napier</i>	<i>260</i>	<i>285</i>	<i>280</i>
<i>New Plymouth</i>	<i>250</i>	<i>280</i>	<i>280</i>
<i>Wanganui</i>	<i>190</i>	<i>195</i>	<i>190</i>
<i>Palmerston North</i>	<i>230</i>	<i>250</i>	<i>250</i>
<i>Kapiti</i>	<i>275</i>	<i>280</i>	<i>280</i>
<i>Porirua</i>	<i>280</i>	<i>310</i>	<i>320</i>
<i>Upper Hutt</i>	<i>220</i>	<i>270</i>	<i>285</i>
<i>Lower Hutt</i>	<i>280</i>	<i>300</i>	<i>300</i>
<i>Wellington</i>	<i>300</i>	<i>270</i>	<i>360</i>
<i>Nelson</i>	<i>260</i>	<i>280</i>	<i>292</i>
<i>Christchurch</i>	<i>270</i>	<i>290</i>	<i>295</i>
<i>Dunedin</i>	<i>220</i>	<i>242</i>	<i>220</i>
<i>Invercargill</i>	<i>180</i>	<i>200</i>	<i>190</i>
<i>All NZ</i>	<i>280</i>	<i>295</i>	<i>300</i>

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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