



# NZ Residential Rental Market

## September 2006

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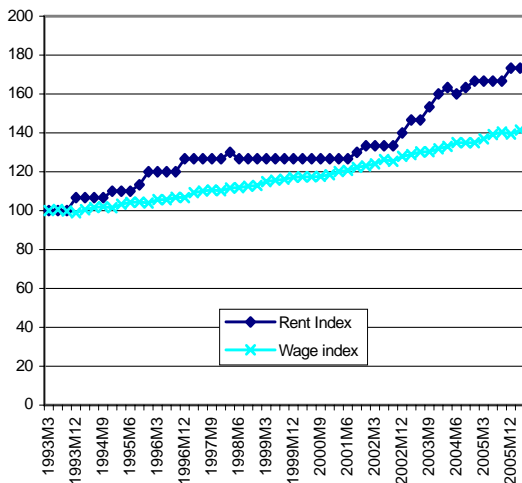
### Rental Affordability

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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.

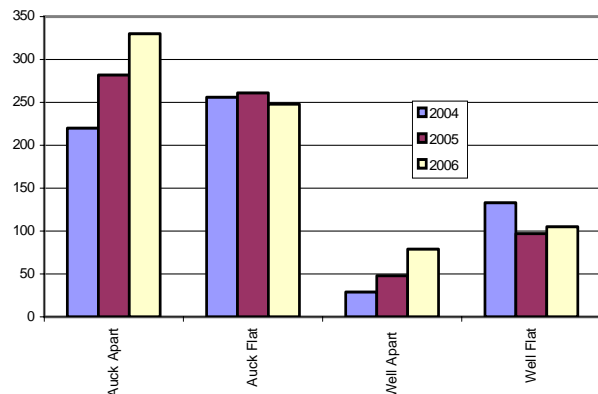
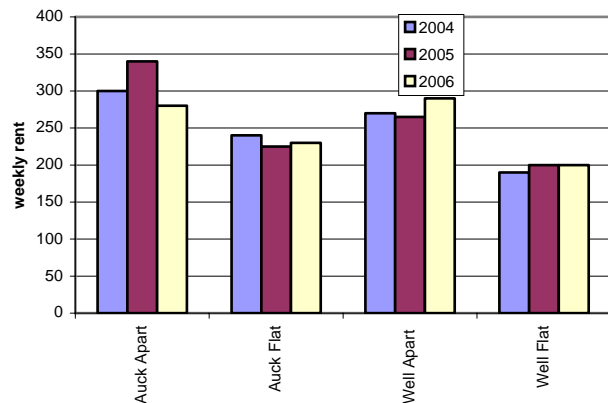
#### Wages and Rents.

Housing affordability is usually thought of in terms of the cost of home ownership. However, with increasing numbers of households renting in the private sector more attention is now being given to rental affordability. On a national basis renting definitely became less affordable over the period 1993-2006. In the first quarter of 1993 the typical private sector renter would have required 26% of the average wage to pay the New Zealand median rent. By the first quarter of 2000 this figure had increased to 28% and by the first quarter of 2006 to 32%. Rents in the State sector have been capped at 25% of income for some time so it is no surprise that there is a long waiting list for State houses. Rental affordability is also more difficult in the larger cities, possibly because there is more pressure on the rental housing stock. In the first quarter of 2006 the comparable rental affordability figures were Auckland (37%), Wellington (36%), Christchurch (34%) and Dunedin (30%). The reason for rental affordability becoming more difficult is that rental increases have outstripped increases in wages. The chart below illustrates this point showing increases in wages and rents over the period 1993-2006 and indexed to a common basis in 1993.



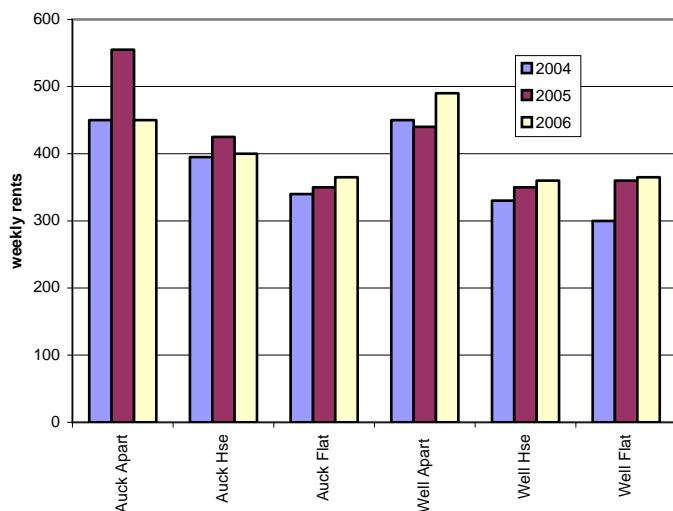
#### Flats and Apartments

The first chart below takes an April snapshot to show changes in the weekly rentals over the last three years for one bedroom flats and apartments. The reductions in rents for Auckland apartments from 2005-2006 goes against the general upward trend in rents. An obvious explanation for the reduction in Auckland apartment rents is oversupply and this is shown in the second graph below showing the volume of new tenancies, again taking an April snapshot. Wellington apartment rental volumes also increased substantially over the period but did not show the same reduction in rental levels. On the demand side the reduction in net migration, particularly international students market affected Auckland more than Wellington.



## Location Matters

The private sector rental market is dominated by three bedroom detached houses located in the suburbs and there are very few one bedroom houses and relatively few two bedroom houses. For this reason three bedroom accommodation was used to compare the rents for apartment, houses and flats. The chart below takes April snapshots of Auckland and Wellington rents from 2004-2006. This chart shows how apartment rents exceed those for houses and flats, both in Auckland and Wellington. Similar results are found when two bedroom rentals are analysed on a rent per bedroom basis. Apartments are predominantly located in the central business district and this feature minimises the commuting time and dollar travel costs for city office workers. Of course these differential rents are not just about location and other variables are also important. For example, houses are typically larger than flats and apartments but this is partly offset by the fact the apartment rental stock is newer than the stock of houses and flats.



## Current Rental Levels by TLA

The national level of median rent has remained at \$260 per week during 2006. A snap shot of rents in the main Territorial Local Authorities over the period August 2005 to August 2006 is shown in the table at the top right. The rents in most cities tracked the national trend which showed a 4% rise over 12 months. Median rents in the cities of Porirua and Upper Hutt tend to “bounce around” on a monthly basis, possibly due to the relatively small private sector rental market. The figure of \$190 for Dunedin is interesting as it is 15% less than the median rent was in August 2005 (\$225). The July 2006 median rent in Dunedin was \$210 and June 2006 was \$230. This trend may be partly a reflection of increasing numbers of students taking out individual tenancy agreements. Thus one house can have multiple tenancies and this characteristic can distort the median statistic. The overall rent for 3 bedroom Dunedin tenancies was up \$10 per week over 12 months. There was also a view that there has been some downward pressure on the rentals for student accommodation, particularly at the lower end of the market.

## Median Rents

	August 05	January 06	August 06
Whangarei	210	212	240
North Shore	333	340	350
Waitakere	290	300	300
Auckland	320	320	330
Manukau	300	310	300
Papakura	275	280	290
Hamilton	275	250	252
Tauranga	250	270	265
Rotorua	190	190	200
Gisborne	180	190	195
Hastings	210	220	225
Napier	240	240	250
New Plymouth	220	220	240
Wanganui	160	165	170
Palmerston North	200	210	220
Kapiti	230	230	240
Porirua	230	230	270
Upper Hutt	190	190	222
Lower Hutt	220	240	240
Wellington	300	300	320
Nelson	240	250	247
Christchurch	250	260	260
Dunedin	225	240	190
Invercargill	160	160	160
All NZ	250	260	260

### 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 Bill Cleghorn. 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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