

# NZ Residential Rental Market

## September 2010



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### Rental Affordability– Auckland

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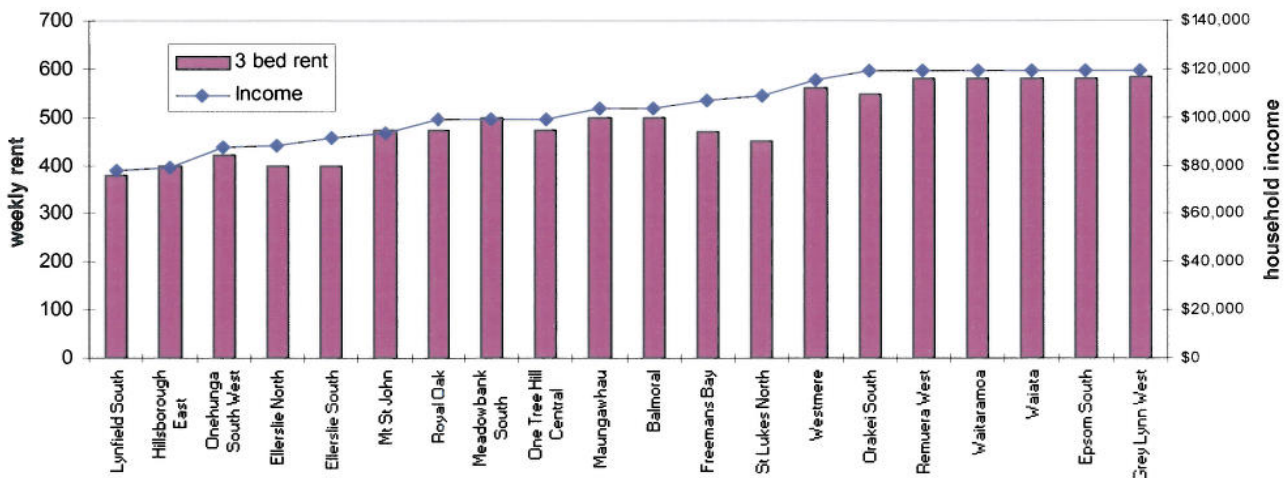
**DATA SOURCE** This index has been developed from private sector rental data supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted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

Housing affordability is of particular concern for first time householders seeking accommodation in Auckland city, New Zealand’s least affordable major city. One simple method of measuring home affordability on a city wide basis is to relate the median household income to the median house price or the median rent. It turns out that household incomes are highly correlated to both rents and house prices. This relationship is explained by land economics theory showing households tend to cluster together according to income levels and socio economic status. However, Lyn Fisher the co-author of “Amenity Based Housing Affordability Indexes” points out simply looking at citywide ratios of income to house prices or income to rents does not take into consideration many of the variables people actually take into account when considering affordability. These include housing quality, suburban amenities, school quality, safety and commuting costs.

This edition explores Auckland city housing affordability at an area unit (neighbourhood) level and from the point of view of new households entering the Auckland market. Area units are then ranked according to the household income to suburban rent ratio and market anomalies identified in the ratios. The spatial aspects of distance from the Central Business district (CBD) and high school zoning are incorporated into the analysis with a view to recognising how these variables influence affordability. The chart below shows the top twenty area units in terms of household income to rental affordability. Rents rather than house prices are used in the analysis because at a neighbourhood level rental data is less volatile and more comprehensive than house sales information.

Household income is mapped on the right hand scale and weekly rent on the left hand scale. Area units with rents well below the income line are the most affordable for new entrants to the Auckland market. Ellerslie North and Ellerslie South are examples of area units with favourable rent to household income ratios, good access to the CBD and a new business park next to the Ellerslie racecourse. However both Ellerslie area units are zoned into a decile 3 public high school. The alternative for Ellerslie parents with high school aged children may be to send the children to a private school or to move to an area unit with a high decile rated public high school. The table below uses discounted cash flow analysis to compare the variable costs of a family with one high school aged child living in the decile 10 (Grammar zone) Mt Eden South neighbourhood to Ellerslie North, the private school alternative. Discounting the negative cash flows at a 4% rate and assuming five years of private school fees clearly favours locating in Mt Eden. When only one years worth of private school education in contemplated then Ellerslie is a better option.

<i>Mt Eden South</i>	2010	2011	2012	2013	2014
Rent	\$27,300	\$28,119	\$28,963	\$29,831	\$30,726
Commuting	\$1,848	\$1,903	\$1,961	\$2,019	\$2,080
Total Costs	-\$29,148	-\$30,022	-\$30,923	-\$31,851	-\$32,806
NPV @4%	-\$137,466				
<i>Ellerslie North</i>	2010	2011	2012	2013	2014
Rent	\$20,800	\$21,424	\$22,067	\$22,729	\$23,411
Private School					
Costs	\$15,000	\$15,450	\$15,914	\$16,391	\$16,883
Commuting	\$2,587	\$2,665	\$2,745	\$2,827	\$2,912
Total Costs	-\$38,387	-\$39,539	-\$40,725	-\$41,947	-\$43,205
NPV @4%	-\$181,038				



## Car Options

The area unit census data reveals large disparities between the way get people to work. In the CBD 30%-45% apartment dwellers walk or bike to work compared with 2%-10% of apartment dwellers living outside the CBD. This raises the question of the need for car ownership and the costs of this compared with CBD apartment dwellers who may be able to rent a car by the hour or use a taxi for weekly shopping trips to the supermarket. The table below sets out the variable financial costs of the CBD Auckland harbour side location with Mt Eden South which is about 5k distant from the CBD.

When the cash flows are discounted at 4% the Mt Eden location comes out slightly ahead of Auckland harbour side but this does not take account of the easy walking access to the downtown shopping, proximity to entertainment precincts and the time saved by being able to avoid commuting on a congested roads.

### 2 bed apartment Auckland Harbourside

	2010	2011	2012	2013	2014
Rent	\$28,600	\$29,458	\$30,342	\$31,252	\$32,190
Taxis or cityhop rental	\$2,000	\$2,060	\$2,122	\$2,185	\$2,251
Total Costs	-\$30,600	-\$31,518	-\$32,464	-\$33,437	-\$34,441
NPV @4%	-\$144,313				

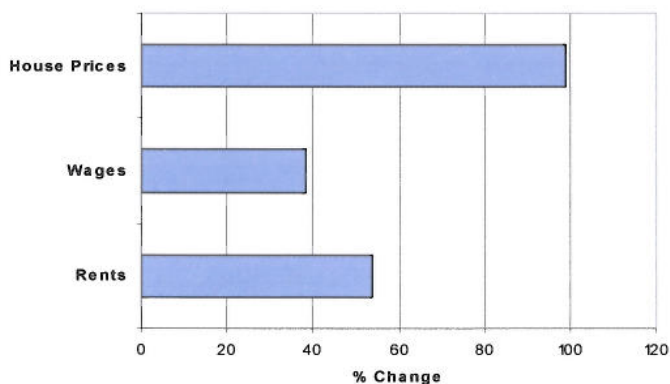
### 2 bed apartment Mt Eden

	2010	2011	2012	2013	2014
Rent	\$19,760	\$20,353	\$20,963	\$21,592	\$22,240
Fixed Car Costs	\$5,580	\$5,747	\$5,920	\$6,097	\$6,280
CBD parking + car variable	\$2,500	\$2,575	\$2,652	\$2,732	\$2,814
Total Costs	-\$27,840	-\$28,675	-\$29,535	-\$30,422	-\$31,334
NPV @4%	-\$131,297				

## Overall Rents Remain Flat

The national median weekly rent remained at \$300 per week in August, the same level where it has been during 2010. The movement in the national median rent from August 2009 to August 2010 was just 3.4%. The table in the right hand column compares current rents with the previous quarter and the same period last year.

The chart below shows the percent change in house prices, wages and rents from August 2001 to August 2010. As rental affordability is correlated to wages it seems likely that future rental growth will be constrained by the growth in wages.



## Median

Rents	Aug-09	May-10	Aug-10
Whangarei	280	280	270
North Shore	375	410	390
Waitakere	332	350	350
Auckland	360	370	375
Manukau	350	360	365
Papakura	320	330	330
Hamilton	280	295	290
Tauranga	300	310	315
Rotorua	220	230	230
Gisborne	240	240	245
Hastings	250	260	262
Napier	295	300	280
New Plymouth	280	280	290
Wanganui	185	200	200
Palmerston North	250	250	260
Kapiti	287	295	300
Porirua	300	305	325
Upper Hutt	270	260	260
Lower Hutt	285	310	295
Wellington	350	395	380
Nelson	285	300	300
Christchurch	285	290	290
Dunedin	240	250	247
Invercargill	200	210	210
All NZ	290	300	300

### 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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