

NZ Residential Rental Market

December 2001

Quarterly Survey Volume 4, Number 4

Prepared by
Bob Hargreaves*

Tenure Choice

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.

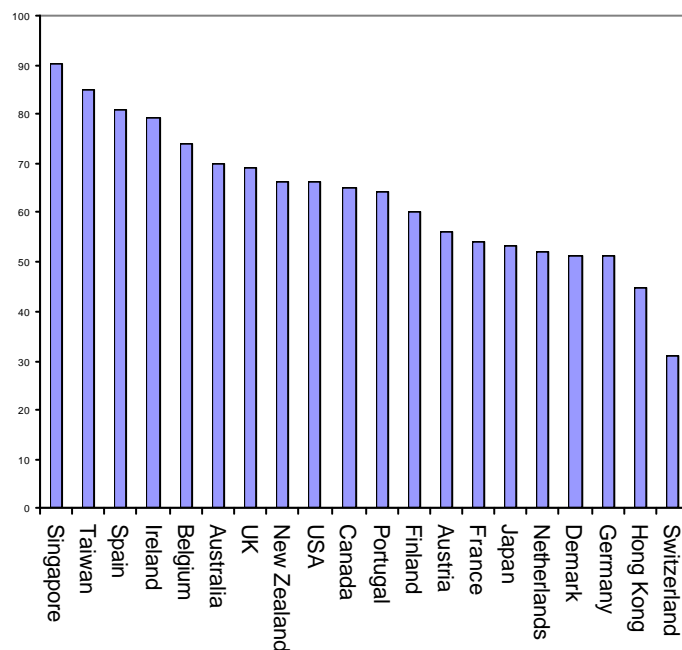
Some International Comparisons

A search of various government websites shows New Zealand has slipped down the international rankings of those countries with a high percentage of owner occupied housing. New Zealand led the world in 1986 but is now only just in the top ten. The chart below shows the owner occupied housing percentages for 20 countries. This list is not complete due to the lack of recent statistics from several countries. However the list is reasonably comprehensive thanks to recent EU research.

Singapore (90%) is a clear leader in owner occupied housing, followed by Taiwan (85%) and Spain (81%). Interestingly, Switzerland, one of the richest countries in the world has a very low rate of owner occupied housing. Clearly, ownership has cultural as well as affordability considerations.

Readers who have travelled overseas will be quick to point out that statistics on tenure choice do not take account of differences in housing type and quality. For example, housing in Singapore and Taiwan is typically relatively small apartments located in medium rise buildings. In countries with lower population densities, such as Australia and New Zealand, housing is typically detached bungalows located in the suburbs.

Percent Owner Occupied

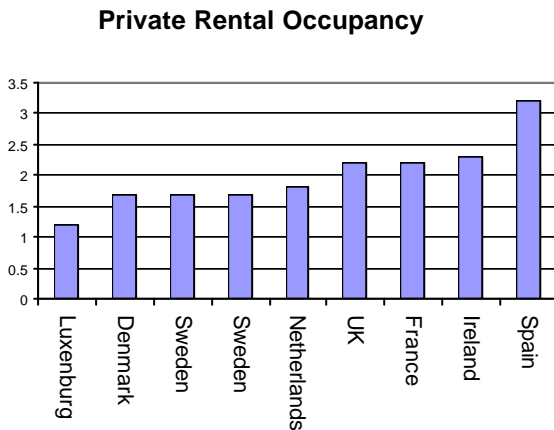
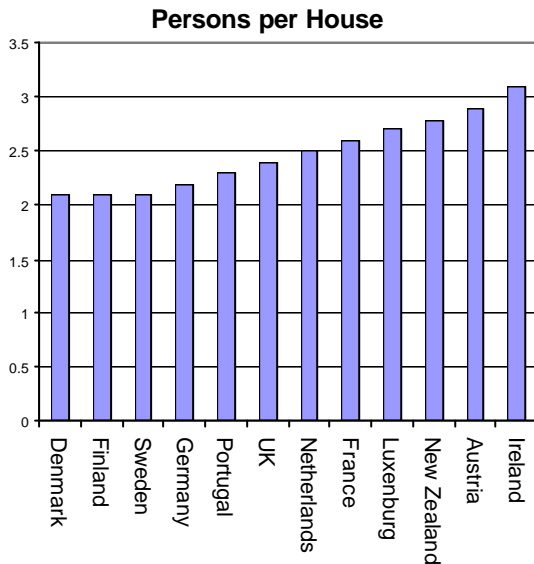


Does Tenure Choice Matter?

Most New Zealanders do aspire to home ownership. There is a concern that if significant numbers of households are excluded from ownership then further social polarisation may result. In this context income polarisation is said to occur when household income distribution goes from being egg shaped to hour glass shaped. Generations of New Zealanders have used investment in housing as their main form of wealth accumulation. Paying off the mortgage is considered to be a disciplined form of compulsory saving. The conventional thinking is that if the mortgage on the family home is repaid by the time the householders retire then the cost of living during retirement will be reduced considerably. Also at retirement householders have the opportunity to downsize their house and free up capital to fund retirement. The tax free nature of capital gains from housing is a further advantage favouring ownership over renting. There is a group of renters who have the choice to own but choose not to. This group may have alternative investment strategies which at least equate with the returns from housing investment. Another group of renters, thought to be the majority, cannot afford to buy because they lack the necessary deposit and, or have insufficient debt servicing capacity. The worry is that this latter group is getting larger as the percentage of New Zealanders owning their own house continues to reduce.

Some Comparisons

The average number of people per household unit continues to fall in most western countries. The first chart below compares the current New Zealand situation to several EU countries. Household size in Europe is still generally well below that of New Zealand. This reflects the aging European population and birth rates below replacement rates in several countries. The second chart below shows the number of people per private rental unit for several EU countries.



Rental Levels

A snapshot of recent rental levels in the main centres is shown in Table 1. Overall rents have remained static since the last quarter and the national median rent has stayed at \$190 per week for the last 2.5 years.

When are rents likely to move up again? This will be mainly demand driven in the short term and will be largely a function of population movements. Early indications are that the net migration outflow has turned around and more New Zealanders are now returning home. This is likely to result in demand pressure in Auckland followed by an upward movement in rents.

Table 1

	Oct 00	Jan 01	Oct 01
Whangarei	165	170	165
North Shore	260	260	270
Waitakere	235	240	240
Auckland	250	260	275
Manukau	237	240	247
Papakura	230	210	240
Hamilton	185	180	185
Tauranga	190	185	190
Rotorua	160	155	160
Gisborne	150	150	150
Hastings	160	165	165
Napier	180	170	175
New Plymouth	150	135	150
Wanganui	125	125	125
Palmerston North	170	175	180
Kapiti	195	190	200
Porirua	200	185	197
Upper Hutt	190	160	170
Lower Hutt	200	200	200
Wellington	260	250	250
Nelson	175	180	180
Christchurch	180	180	180
Dunedin	160	160	160
Invercargill	110	120	120
All NZ	190	190	190

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. Claire Phillips is the Secretary/Treasurer. She may be contacted on (06) 3505799 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)

Inquiries concerning this publication and other research papers prepared by MUREAU may be addressed to:

MUREAU
 Department of Finance, Banking and Property
 Massey University, Private Bag 11.222
 Palmerston North
 Telephone: +64 6 350-5799 ext: 2321
 Facsimile: +64 4 350-5651

<http://property-group.massey.ac.nz/mureau/mureau.htm>