

# NZ Residential Rental Market

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### Social Housing Changes

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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.

#### Social Housing

The need for social housing in New Zealand is not under dispute by most people. In fact it can be argued the need for more social housing is greater than ever, given the increasing disparity in household wealth together with an ever increasing population. For a long time the vast majority of social housing in New Zealand has been provided by the Housing New Zealand Corporation (HNZC). Currently HNZC has approximately 69,000 state houses under its control. In recent times questions have arisen whether or not the HNZC model is the most effective and efficient way to provide and manage social housing in New Zealand. The HNZC portfolio comprises a large amount of housing stock built in the World War II era. Although these properties are generally well constructed a significant number are clustered in less desirable neighbourhoods and in cities where the demand for social housing has reduced. Also many older HNZC houses are in need of a considerable amount of deferred maintenance. Having one government agency managing such a large amount of housing is difficult because a one size fits all social housing national policy does not always fit in with the local needs of an increasingly ethnically diverse population.

#### Allocation Issues

Over time a perception has arisen amongst some of the tenants that once a family was settled in a HNZC state house this was a tenancy for life, should the family chose to remain. Further there has been a very low turnover rate for state houses since rents are typically fixed at below market levels (25% of household income). A misallocation of social housing resources is accentuated when families live in the same state house through their life-cycle. In the first instance their children live in the house with their parents, later the children move away, later yet one partner dies and often the widow is left alone left occupying a three or four bedroom house. In this example the widow (on a low income) has no financial incentive to move into a smaller house. Income related rents are heavily subsidised by the tax payer and have provided HNZC with a considerable financial advantage over other non-subsidised social housing organisations. This policy has resulted in a lengthy queue for state houses. Up until very recently successive governments appear to have been unwilling to tackle the state housing allocation problems, seemingly because of the political risks arising from tenants hard luck stories being taken up by the national news media and influencing election outcomes.

#### Are there better alternatives?

New Zealand is not alone in having to grapple with the problems of social housing. Indeed social housing issues present problems throughout most of the Western world. However, some countries have more experience than others with dealing with social housing. For example, in the United Kingdom there is now a large amount of social housing administered by Housing Associations (HA). These organisations are typically not for profit non-government social agencies managed by staff who appear to be more in tune with the needs of their tenants than the staff of large state agencies such as HNZC. Australia also has had some success having recently gone down the path of making it possible for HA to manage, redevelop existing and build new, social housing.

#### Budget 2013

In the 2013 budget the Minister of Finance announced some major changes to the way that social housing will be administered in New Zealand. These changes will lessen the role of HNZC in a number of ways. Firstly, the allocation of state houses will no longer be under the control the HNZC, instead it has been handed to social welfare arm of government. Secondly, the government has signalled that it is moving to hand over a number of HNZC houses to not-for-profit HA. Thirdly, the not for profit HA will have the benefit of rental subsidies so that they can offer income related rents to needy tenants. Fourthly, the new tenancy agreements for HNZC tenants ensure that their tenancies are periodically reviewed and if a family can afford to move into the private sector rental market then they will be encouraged to do so. Tenants who are already paying market rents for HNZC properties will also be encouraged to move to the private sector, with the possibility of their tenancy agreement not being renewed. (Approximately 6000 HNZC tenants are already paying market rents).

#### Housing Associations in New Zealand

Negotiations to establish HA are currently occurring between the government and some of the local non-government social welfare agencies. One such example is in Hawke's Bay where a local Iwi organisation are looking to take over the management and running of a large number of state houses in the Flaxmere district of Hastings. It is anticipated other agencies such as the Salvation Army may be also be interested in taking up the government HA initiative. No doubt negotiations between the new HA and government will try to provide a win/win solution for both parties, but it will not be straightforward. On one hand government wants to maximise the value of the state houses it is handing over to the HA. On the other hand the HA need to be able to leverage their housing assets to be able to provide finance for redeveloping, older three

bedroom houses and to provide new smaller housing units more in keeping with current tenant demand. While HA are definitely in the not for profit category to move ahead they still need to be able to at least break even or generate a small surplus. One of the ways a surplus has been achieved by some of the overseas HA is profitable property development. Property development is obviously a risky business but sometimes the HA has an advantage by owning key sites ripe for intensification. In Auckland this might be land in the Tamaki area capable of being developed into low rise apartments. The resulting apartment development might be a mixture of social rental units and owner occupier apartments. The usual argument against this type of development is that mixing owner occupiers and social rented housing is too risky for the private sector. However, most of the negative arguments can be overcome if the social housing tenants are very carefully selected from those with an excellent record and subjected to the usual tenancy sanctions if they do not comply.

Not for profit HA attract capital from the private sector both in the form of donations and from lending institutions. In this sense they save the government (taxpayer) money. Perhaps equally important to government is by handing houses over to HA they reduce the contingent liabilities associated with upgrading a large number of state houses to modern standards.

### Rental Levels

The national level of rent in May was \$330 per week. This was a \$10 per week reduction since rents peaked in February 2013. A snapshot of rents itemised by the main urban local authorities is shown in the table in the right hand column. On an annual basis rents moved up by \$20 per week (9.6%) in the May 2012 to May 2013 period. Annual rental increases were led by Christchurch (18.3%) followed by Dunedin (14.0%).

Conventional economic theory suggests rents lead house prices but currently this does not appear to be the case, particularly in Auckland. Perhaps economic "shocks" such as the historically low mortgage interest currently available distort the market, at least in the short run.

<b>Median Rents</b>	<b>May-12</b>	<b>Feb-13</b>	<b>May-13</b>
<i>Whangarei</i>	280	270	290
<i>North Shore</i>	430	460	460
<i>Waitakere</i>	360	380	390
<i>Auckland</i>	395	420	420
<i>Manukau</i>	380	405	400
<i>Papakura</i>	350	365	367
<i>Hamilton</i>	300	320	310
<i>Tauranga</i>	325	340	340
<i>Rotorua</i>	230	240	250
<i>Gisborne</i>	250	250	247
<i>Hastings</i>	275	280	290
<i>Napier</i>	300	295	300
<i>New Plymouth</i>	280	305	310
<i>Wanganui</i>	200	200	190
<i>Palmerston North</i>	270	260	265
<i>Kapiti</i>	300	300	320
<i>Porirua</i>	310	345	325
<i>Upper Hutt</i>	280	260	280
<i>Lower Hutt</i>	310	320	320
<i>Wellington</i>	390	400	390
<i>Nelson</i>	320	320	325
<i>Christchurch</i>	300	355	369
<i>Dunedin</i>	250	285	260
<i>Invercargill</i>	210	220	220
<i>All NZ</i>	310	340	330

#### **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.

#### **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 available on the internet are:

- 1 The Home Affordability Report (Quarterly)
- 2 NZ Residential Rental Market Report (Quarterly)

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