



NZ Residential Rental Market

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Rental Blues

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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.

Rental Levels

Over the last quarter the national level of median rent for private sector rental accommodation increased by \$10 per week to reach a new high of \$230 per week. The national median rent was up by 9.5% over 12 months. A snap shot of rents in the main cities over the period October 2002 to October 2003 is shown below.

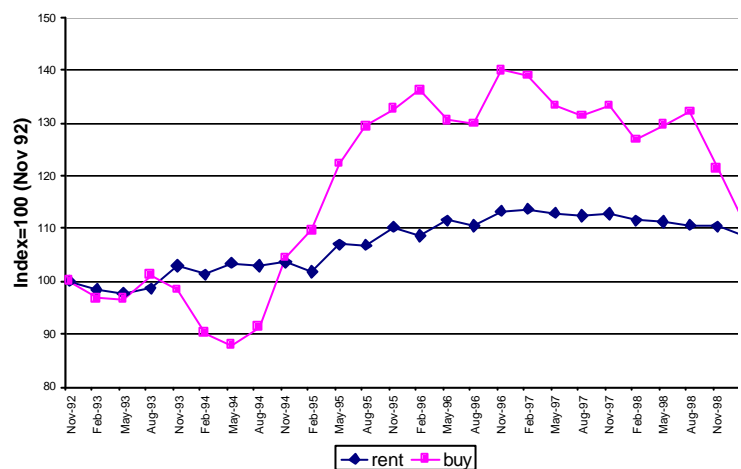
	Oct-02	Dec-02	Oct-03
Whangarei	170	180	180
North Shore	310	320	340
Waitakere	260	265	285
Auckland	300	310	325
Manukau	260	280	282
Papakura	240	240	260
Hamilton	200	200	220
Tauranga	200	210	220
Rotorua	160	170	175
Gisborne	150	150	165
Hastings	175	165	190
Napier	200	190	210
New Plymouth	160	170	180
Wanganui	130	125	140
Palmerston North	177	190	200
Kapiti	200	200	200
Porirua	210	210	210
Upper Hutt	165	180	200
Lower Hutt	195	207	220
Wellington	270	280	290
Nelson	200	210	230
Christchurch	200	200	230
Dunedin	175	170	200
Invercargill	140	135	160
All NZ	210	210	230

The overall pattern over the last 12 months shows rents increasing more rapidly from South to North. This may represent a period of catch up for the South Island as Auckland rents were the first to take off when the current upturn started in 2001. Rental increases in the North Island cities have generally been close to the NZ median increase, with North Shore and Auckland leading the Auckland region. South Island rents have increased at a faster rate than the NZ median with all cities increasing in the 14-15% range over the period under review.

Affordability Considerations

The chart below tracks NZ rental versus home mortgage affordability over the period November 1992 to August 2003. Mortgage affordability is based on the AMP series compiled by MUREAU and uses three variables, fixed mortgage interest rates, average wages, and median house prices. The rental affordability series uses just median rents and average wages. Both are set at 100 for November 1992. The relative improvements in affordability for home buyers is largely a function of the current interest rates being at a 30 year low. Rental affordability worsened by 10% over the period but is much less volatile than mortgage affordability, currently 7% worse.

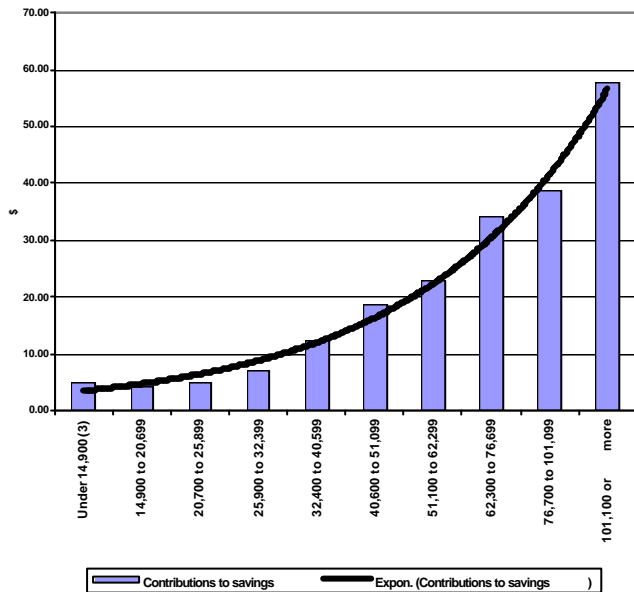
Comparing Affordability-renting v buying



In addition to the relative improvement in buying versus renting affordability as shown above, there is a further attraction for buying. Increases in house prices over time belong to the owner and tenants do not share in the considerable capital appreciation witnessed in most residential markets over the last two years. This raises the questions about why the rate of ownership continues to decline. Survey work of private sector renters in 2002, carried out by the author, suggested that renters have genuine financial problems making the step to home ownership, particularly in Auckland. The first step towards ownership is to save a deposit.

Saving for a Deposit

Information on the savings patterns of New Zealand households is available from the Household Economic Survey (HES) carried out in 2001 by Statistics NZ. The chart below shows the savings pattern according to annual household income.



As household incomes increase so does savings. Savings as shown above are increasing at an exponential rate. The HES data shows the average weekly savings for all households at \$20.60 and for renter households \$10.20. So just how long does it take the average renter household to save for a deposit on a house? The answer to this question depends on a number of variables including, income, interest rates, house prices, savings motivation and the percent deposit required. The table below shows the number of years it will take to accumulate various target deposit amounts at a net after tax interest rate of 4%.

deposit	Monthly Savings				
	\$50	\$60	\$70	\$80	\$90
\$15,000	17.36	15.18	13.50	12.16	11.06
\$20,000	21.22	18.71	16.75	15.18	13.88
\$25,000	24.56	21.81	19.64	17.87	16.41
\$30,000	27.51	24.56	22.22	20.31	18.71
\$35,000	30.15	27.04	24.56	22.52	20.82
\$40,000	32.54	29.30	26.70	24.56	22.76
\$45,000	34.72	31.37	28.68	26.45	24.56
\$50,000	36.72	33.28	30.50	28.20	26.24
\$55,000	38.58	35.06	32.21	29.83	27.82
\$60,000	40.30	36.72	33.80	31.37	29.30
\$65,000	41.92	38.28	35.30	32.82	30.70

If we assume a 10% deposit and use the REINZ median house price from a variety of localities a rather worrying pattern emerges in the table in the top right hand column. On average it will take a household saving \$50-\$70 month over 20 years to accumulate a deposit. If savings starts at age 20 then households will be stuck in the rental market until age 40, perhaps longer as house prices increase typically exceed increases in wages and salaries.

Monthly Savings

	\$50.	\$60	\$70
Whangarei	26.47	22.22	19.14
North Shore	57.56	48.70	42.21
Waitakere	39.81	33.53	28.97
Auckland	60.98	51.64	44.79
Manukau	48.18	40.66	35.18
Papakura	33.76	28.39	24.49
Hamilton	29.10	24.44	21.07
Tauranga	36.50	30.72	26.52
Rotorua	21.99	18.44	15.87
Gisborne	20.18	16.91	14.55
Hastings	27.42	23.02	19.84
Napier	31.06	26.10	22.51
New Plymouth	22.51	18.87	16.25
Wanganui	11.48	9.60	8.24
Palmerston North	25.36	21.28	18.33
Wellington Region	37.43	31.50	27.20
Nelson	38.13	32.10	27.72
Christchurch	29.70	24.95	21.51
Dunedin	22.86	19.17	16.50
Invercargill	14.82	12.40	10.66
All NZ	33.91	28.51	24.60

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 to operate out of both Massey University's Palmerston North and Albany campuses. The Secretary of the Foundation is Natalie McLelland, Phone (06) 3505799 ext. 2321.

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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