

NZ Residential Rental Market

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More on Rental Drivers

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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.

This issue considers some of the main factors influencing the level of residential rents. Updated trends on the level of median rents are also included.

Demographics

The rate of population growth and the absolute size of the population in a city are key elements in the residential rental equation. Population pressure normally translates into increased demand leading to higher rents and higher house prices. According to the demographers, the pattern of future population growth over the next two decades is already largely determined by the existing population and migration flows. Future immigration patterns are likely to only have a relatively minor effect on the demand for rental accommodation. The drift of population from the south to the north is already well documented but not so well known is the drift east.

Location

Population patterns suggest that some localities will be winners in the rental stakes and others losers. Broadly speaking the Auckland region is likely to be the biggest winner. Rents in Auckland are already the highest in the country and this pattern is likely to continue. The losers are likely to be provincial cities, particularly those on the West Coast and those in the South Island.

Rents in Wellington city are likely to remain appreciably higher than those in the nearby cities of Porirua, Upper Hutt and Lower Hutt. The rental differentials here will be a function of the costs of commuting to the central city and lifestyle considerations. In addition, planning and physical constraints limit the supply of new rental accommodation in Wellington city.

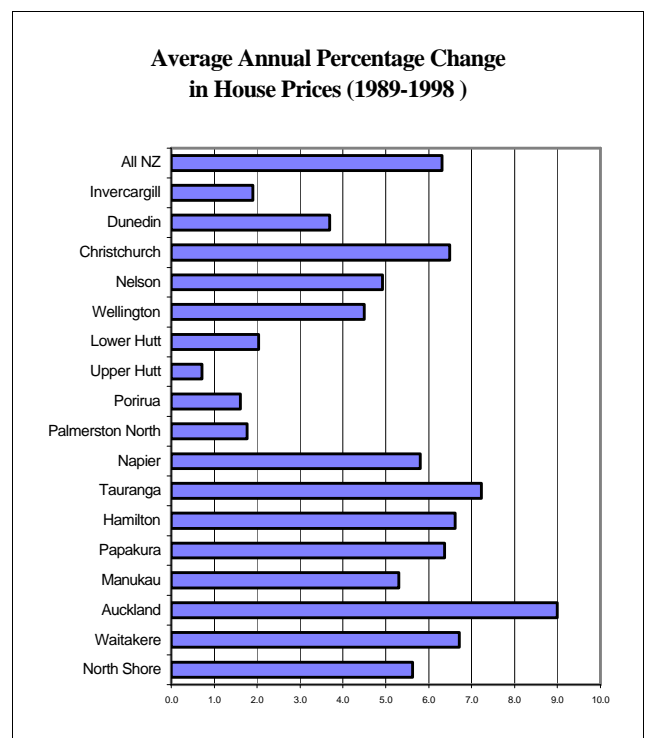
House Price Appreciation

Economics teaches us that the value of an income producing property is the present value of the future income streams. With rental housing future income comes from two sources. Firstly, the annual cash flow from rents, and secondly, the price the property can be sold for when the investment is liquidated.

From an investment viewpoint, cash flow in the near future is worth more than cash flow in the distant future. This means the amount an investor will pay for a rental property is closely related to current rents. Throughout New Zealand the ratio between income and value is normally in the 6-10% range. Historically, the difference between an average return on investment and a good return is mainly a function of house price appreciation.

Figure 1 uses Quotable Value data to compare average annual rates of price appreciation during the 1990's. Clearly, the big winners were Auckland investors.

Figure 1



Flats versus Houses

The data supplied by the Tenancy Bond Centre is split up into houses and flats. A house is defined as a detached unit whereas a flat has one or more common walls with another dwelling unit. Table 1 compares the percentage difference between the rents for houses and flats. This

snapshot uses January 2000 data for both 2 and 3 bedroom dwelling units.

In general tenants pay more per bedroom for houses than they do for flats. This is understandable since most families like space around the house for gardening, children's play and parking. Also houses typically have more floor space than flats.

Table 1

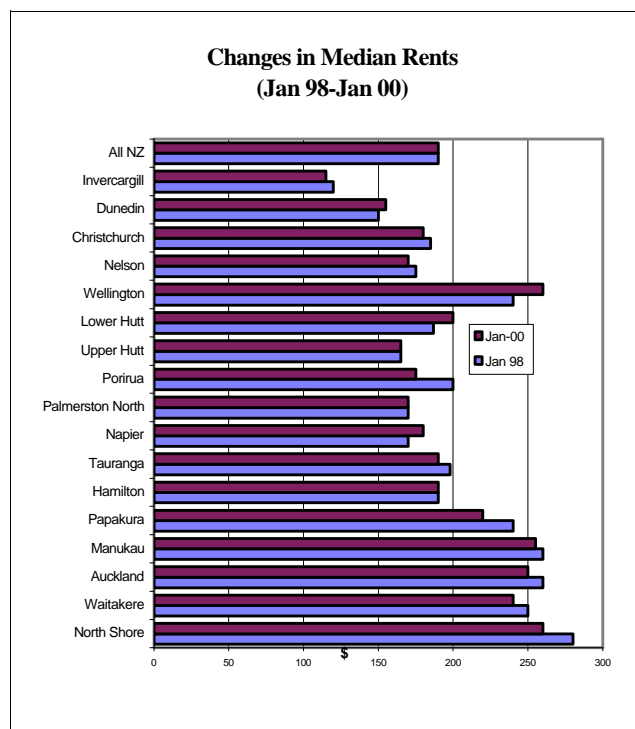
Percentage Difference in Rents for Flats Compared to Houses		
Area	Three Bedrooms	Two Bedrooms
North Shore	-6	-12
Waitakere	-4	-8
Auckland	10	-10
Manukau	-4	0
Hamilton	-3	-19
Tauranga	-15	-9
Napier	-20	-6
Palmerston North	-5	-16
Porirua	-35	-3
Upper Hutt	-30	0
Lower Hutt	-17	-23
Wellington	-2	-8
Christchurch	0	-14
Dunedin	4	0

Bedrooms

Within a given locality the number of bedrooms per rental unit is the most important determinant of residential rents. Research indicates 80-95% of variations in the median rents within a city can be explained by the number of bedrooms. Intuitively this finding makes sense because in a mixed flat tenants prefer to have their own bedroom. Similarly, in a family situation there is a preference for children to have their own bedroom. Also, the number of bedrooms is highly correlated to the size of the unit.

Rental Update

Since January 1998 the national level of median rents (for all local authority areas) has remained static at \$190 per week. Rents have fallen in the Auckland region and for most North Island cities. Wellington has been a notable exception recording a small increase in median rents. South Island cities (except Dunedin) have also shown slight reductions. The differences between January 1998 and January 2000 rents are shown in Figure 2.



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. Donna Dowse is the Secretary/Treasurer. She may be contacted on 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)

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