



NZ Residential Rental Market

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More on Government Intervention

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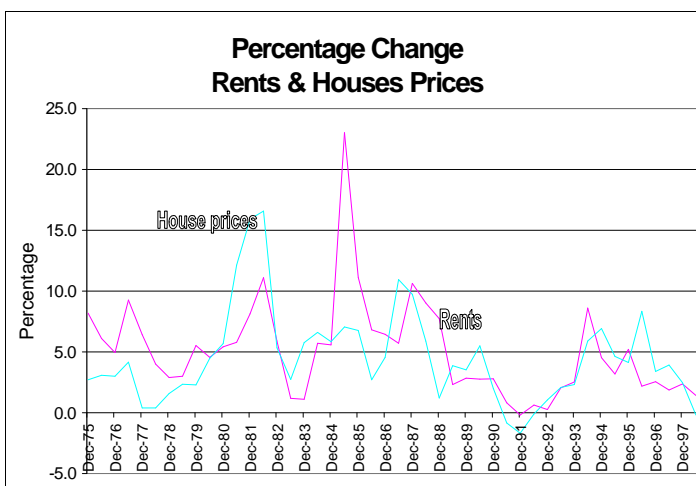
DATA SOURCE This index has been developed from private sector rental data supplied by the Ministry of Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate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

Rents and House Prices

One of the uncertainties facing residential property investors is the effect of government intervention on private sector rents. Currently the question being asked is how will the government income related rent policy for state houses impact on private sector rents? Investors are interested in this question because historically there has been a strong relationship between changes in residential rents and changes in residential house prices. If private sector rents fall as a result of state house rents falling then some residential property investors will suffer capital losses.

Figure 1 charts the relationship between the six monthly percentage changes in rents and house prices over the period December 1975 - June 1998. The rental data has been taken from the Statistics New Zealand Rental Series and the House Price data from the Quotable Value National House Price Index. The spike in rents in 1994 is thought to be more related to the introduction of the government funded accommodation supplement than to moving state house rents closer to market levels.

Figure 1



Rental Differences

The rental data supplied by the Ministry of Housing (Bond Centre) includes average, median, lower quartile and upper quartile rents by Territorial Local Authorities

(TLA). It was decided to test the hypothesis that over the period 1992-1998 lower quartile rents in cities with a large percentage of state houses may have moved at a different rate to upper quartile rents. The rationale being that moving state house rents to market levels would primarily impact on lower quartile private sector rental levels. The reason for this relates to issues of affordability and perception. Given a choice between paying market rents for a state house or a private sector house, significant numbers of tenants will opt for private sector accommodation. The private sector accommodation most affordable for this type of tenant will primarily be lower quartile rental properties.

Table 1 compares the lower and upper quartile rents for the cities of Auckland, Manukau, Wellington and Porirua. In addition, Table 1 includes the comparable all New Zealand figures.

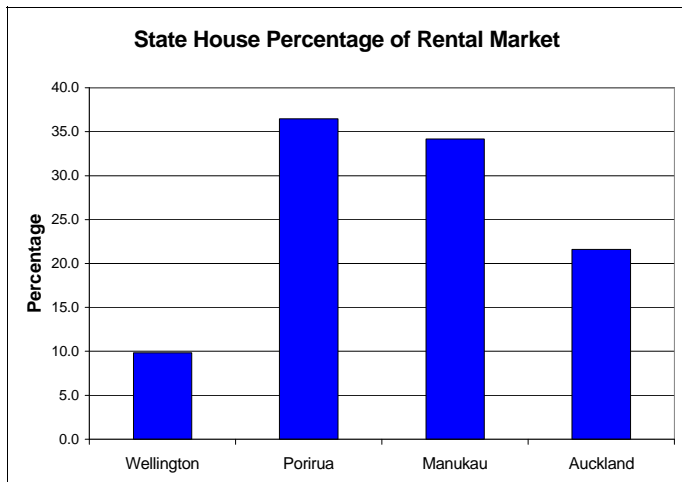
Table 1

Lower Quartile - Upper Quartile Rental Indices										
Date	Auckland		Manukau		Wgtn		Porirua		NZ	
	LQ	UQ	LQ	UQ	LQ	UQ	LQ	UQ	LQ	UQ
Oct 92	100	100	100	100	100	100	100	100	100	100
Oct 93	103	108	100	98	103	97	106	91	100	105
Oct 94	110	121	100	104	107	107	112	93	104	111
Oct 95	131	139	122	113	114	108	124	100	112	127
Oct 96	151	152	140	130	121	126	110	91	116	138
Oct 97	144	152	140	126	128	126	104	90	125	138
July 98	144	143	137	126	135	134	117	100	125	138

In Auckland and Wellington lower quartile rents and upper quartile rents moved in tandem but in Manukau (9%) and Porirua (17%) lower quartile rents moved up faster than upper quartile rents.

Figure 2 shows the state houses as a percentage of the residential rental market in Auckland, Manukau, Wellington and Porirua cities.

Figure 2



The Flip Side

If moving state house rentals towards market rents has had a positive effect on lower quartile private sector rents in Manukau and Porirua, the flip side will be rent reductions once income related rents make it attractive for tenants to move back into state rental housing.

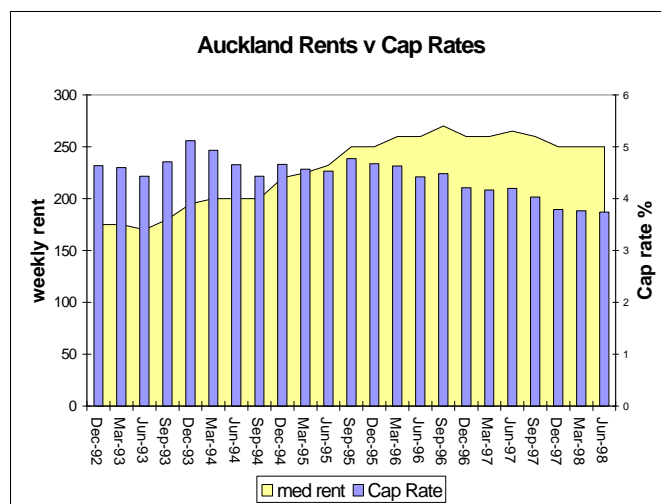
Underpricing state housing will rapidly create waiting lists, particularly in the Auckland region. These government policy changes are likely to have their greatest impact on cities and suburbs with a relatively high percentage of state houses. However, since people in the residential rental market tend to be much more mobile than the population of home owners, it is anticipated the effect on the private sector rental market will also be felt across some median and upper quartile private sector rental properties.

Relating Income to Value

The relationship between the income from a rental property and the sale price is defined as the capitalisation rate (also referred to as yield or return). Since data on net income was not available, gross income figures were used to derive the gross capitalisation rates for Auckland city over the period December 1992 - June 1998.

Figure 3 shows the gross capitalisation rates for Auckland city peaking at 5% in December 1993 but steadily declining to 3.7% by June 1998. In contrast Porirua city peaked at 6.1% in June 1993 but only declined to 5.4% by June 1998. Clearly, Auckland investors are more reliant on capital growth in house prices to offset a decreasing capitalisation rate.

Figure 3



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 available to download 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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