

NZ Residential Rental Market

September 2017

Quarterly Survey Volume 20, Number 3



Changing the Rental Rules?

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DATA SOURCE This publication has been developed from private sector rental data supplied by the Ministry of Business Innovation and Employment (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 Housing Quality

During the 2017 election campaign rental housing affordability and quality issues were featured prominently by several opposition parties when calling for a more interventionist approach to housing. New Zealand rental houses are generally cold, at least by world standards, because they may not be insulated, and in some cases are unheated and poorly built. Cold and damp houses can cause health problems for the tenants, particularly when there is crowding of young children. Mould is usually present in damp houses with inadequate fresh air circulation. Common health issues are asthma and other bronchial diseases. Health researchers have argued that the cost to the health system of having children in cold and damp houses far exceeds the cost of fixing the rental houses. While the health benefits to tenants of living in warm insulated rental houses are obvious the benefits to landlords are more difficult to quantify. Herein is the dilemma for a market versus interventionist approach to rental housing. Improving a rental house costs money (say \$3000-\$5000 for installing a heat pump) and the return on this extra investment can't necessarily be reflected in increased rents. This is because the rental market is driven by market rents of similarly located properties. Rental affordability is also driven by the tenants ability to pay and this in turn is driven by wages and salaries. While most landlords are responsible and take good care of the tenants some do not. The government have recently intervened in the rental market and regulations now require landlords to provide their rentals with working smoke alarms and underfloor and ceiling insulation (where practicable) by 2019.

Warrant of Fitness

An additional interventionist approach presently gaining more traction with policy makers is the idea of a Warrant of Fitness (WOF) for rental housing. Wellington City has said they will move to a compulsory WOF for rental houses costing \$250 per three yearly inspection. The WOF scheme is being resisted by the NZ Property Investors group on the grounds of being unnecessary and adding administration costs. The reality is likely to be some what different.

When the University of Otago housing WOF scheme was pre-tested in 2014 only 6% of the 144 houses passed the WOF test. The main reasons for houses failing their WOF are shown in the table below.

Top Five Reasons for Failing the WOF

Incorrect water temperature	40%
Lacking security stays on windows	38%
No fixed heating	37%
Handrails/balustrades not up to code	31%
Smoke alarms not working	30%

Certainly some of the WOF fails were for minor faults, such as an incorrect water temperature and non working smoke alarms, but 37% of the houses did not have a fixed form of heating. Also, the houses selected were volunteered by landlords and not randomly selected. This meant landlords with houses in poor condition were unlikely to volunteer their houses and the national picture of non compliance is likely be considerably worse than that revealed in this survey.

In 2014 Housing New Zealand (HNZ) carried out a trial WOF check on a sample of 500 houses from its 60,000 portfolio. The results are shown in the table below. Most non complying items could be quickly remedied after vacant possession. The main fail (72.8%) was for inadequate positive ventilation.

HNZ Trial WOF

Fully compliant	4%
Non compliant (remedied <2days)	48%
Non compliant (remedied 10+ days)	32%
Non compliant (scheduled repairs)	16%

Longer Tenancies

The idea of longer term tenancies is likely to find favour with tenants who are part of "generation rent". Currently Landlords can move tenants out with as little as 42 days notice. The generation rent group of tenants comprise people who are unlikely to be able to buy their own house in the foreseeable future. It is particularly difficult for families with children to move at short notice. Moving may involve disruption to the children changing schools and frustration for parents who want to put down their roots in a particular locality. It is true that younger renters under 25 generally move around quite a lot, at least this has been the case in the past, but not so much now as there is so much pressure on the rental market. This means rental houses are quickly tenanted when they become vacant and landlords can be very selective when choosing tenants.

Property Rights

There is little doubt that the Residential Tenancy legislation currently favours landlords in a number of respects and this along with lack of a capital gains tax has helped to encourage so many Mum and Dad investors to choose property over other investment options. Currently rental houses can be sold as investment houses or converted into own your own accommodation for first home buyers. A potential difficulty for property investors occurs when creating longer tenancies because it may reduce the selling options for landlords because owner occupiers require vacant possession. This could mean some rental properties may have to be sold to other landlords and this could reduce price since landlords will be typically interested in the gross yields, which are currently quite low.

Demographics

The current demand pressure on rental housing availability and rents in New Zealand, and Auckland in particular, is due in part to the record levels of net migration occurring over the last few years. Clearly inward migration, more New Zealanders electing to stay home rather than move to Australia and a falling home ownership rate has created difficulties for tenants. An additional factor currently putting pressure on residential rents is international tourism where since 2012 numbers have increased from 2.7m to 3.6m. Some landlords are finding that renting to tourists via Airbnb, on a short term basis, is more profitable than renting full time to locals under a tenancy agreement. In effect Airbnb acts to withdraw homes from the traditional rental market.

Over the next 3-5 years the supply of rental housing is unlikely to catch up with demand at the current level of positive net migration. However this could change. Historically Australia has been an attractive destination for exiting New Zealanders due to higher wage rates and the larger Australian economy. The New Zealand economy is subject to cyclical downturns resulting from reliance on the fluctuating prices of the main agricultural, horticultural and forestry exports. But just when the rental market will “rebalance” seems to depend on political decisions yet to be made about the amount of government intervention in the area of building new social housing.

Rent Controls

At the time of the Christchurch earthquakes there was a large shortage of rental accommodation because thousands of houses were either wrecked or damaged to the extent they were uninhabitable. Rents moved up at record levels and stayed high as workers were brought in to rebuild the city. The government ignored calls for rent controls and over time as rebuilding proceeded rental levels stabilised. Christchurch rents have recently fallen. Thus, over a relatively short space of time the market took care of the rental supply problem. If rental controls had been introduced most likely this would have resulted in an under investment in rental housing.

Rental Levels

The table in the right hand column shows the geometric mean weekly rents for the main New Zealand cities from August 2016 to August 2017. During this period the national geometric mean rent increased to \$390 per week, an annual rate of increase of 3.7%.

The three most expensive rental areas were North Shore, Queenstown and Auckland. In the North Island significant annual rental increases were largely outside the main cities. Whangarei, Hastings, Napier, Porirua and Upper Hutt all had annual increases over 10%. In the South Island Dunedin rents were up 13.7% from August 2016.

Geometric Mean Rents	Aug-16	May-17	Aug-17
Whangarei	324	344	360
North Shore	519	516	537
Waitakere	466	475	483
Auckland	480	519	507
Manukau	477	472	483
Papakura	437	481	467
Hamilton	342	352	348
Tauranga	407	427	427
Rotorua	294	301	308
Gisborne	282	272	290
Hastings	302	336	336
Napier	320	360	353
New Plymouth	322	324	323
Wanganui	222	236	242
Palmerston North	282	296	289
Kapiti	371	370	387
Porirua	403	407	456
Upper Hutt	298	324	345
Lower Hutt	343	368	369
Wellington	406	437	414
Nelson	309	336	334
Christchurch	354	338	339
Dunedin	292	297	332
Queenstown	497	522	527
Invercargill	220	238	235
All NZ	376	392	390

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 Associate Professor Graham Squires.

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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