

The Future of Home Ownership and the Role of the Private Rental Market in the Auckland Region

New Zealand home ownership rates are declining to a unique extent among countries with mature home ownership markets. Under pressure from house price escalation, Auckland home ownership rates are significantly below the national average and have been declining faster. The fall in ownership rates, combined with underlying population growth, suggests an additional 56,000 rental units will be required in the Auckland region over the next 10 years. The majority of these will need to be provided by the traditional, small private investors in the rental market, since the residential housing market lacks institutional investment, and the government's housing policy focus in the private housing market is on demand-side intervention via income supplementation (e.g. Accommodation Supplement).

Based on research by DTZ New Zealand (Ian Mitchell and Steve O'Malley), Dr Laurence Murphy, and the NZ Institute of Economic Research (Ian Duncan). The aim of this study is to improve the understanding of how the Auckland region's private rental market might adjust to cope with the projected fall in home ownership rates and to investigate the market, social and policy implications of these trends, particularly as low to medium income households become increasingly reliant on the private rental sector. The research was jointly funded by CHRANZ and the Auckland Regional Council.

The home ownership and private rental markets are interrelated, but in a complex way. Private investors are optimistic and have invested considerably in the Auckland private rental market, but are in direct competition for property that would be affordable to first-home buyers. New housing supply is relatively inelastic, so that house prices are characterised by a "ratchet effect". They may rise rapidly, but are slow to decline since existing home owners refrain from selling under conditions of low price appreciation. There is now a growing "intermediate housing market" of working households in the Auckland region who are unable to purchase a dwelling at the lower quartile house price (up from 16,200 in 2001 to 54,900 in 2006) – with concomitant implications for community stability and wealth accumulation – and a shortage of affordable and secure accommodation for poorer households confined to the private rental market.

More home owners are experiencing housing stress, which is defined as paying more than 30% of the gross household income on housing costs. While the introduction of income-related rents for state housing has served to ease housing stress in the rental sector, housing stress is still proportionally greater for renting households than for owner-occupier households.

Overall, the authors support a supply-side focus for housing policy over the medium to long term.

Key Points

- The New Zealand home ownership rate peaked at 73.8% in 1991, fell six percentage points to 67.8% in 2001, and is expected to reach 61.8% by 2016.¹ Comparative home ownership rates for the Auckland region are a fall of 8.1 percentage points from 72.7% in 1991 to 64.6% in 2001 and a projected decline to 58.3% in 2016.
- House price to income ratios have increased across all territorial local authority areas in the Auckland region.
- An increase in the proportion of home owners experiencing housing stress (paying more than 30% of their gross income in housing costs) has particularly impacted young home owners and households earning between \$50,000 and \$70,000. The number of stressed owner-occupier households rose by 20.5% to 55,120 between 1996 and 2004, and 59% of them were earning more than \$50,000 per annum.
- Proportionally, 21.2% (55,120) of owner-occupier households experience stress compared with 32.7% (52,400) of renter households.
- There is clear evidence of a growing intermediate housing market where working households cannot afford to buy at the lower quartile house price. The number of households in the intermediate housing sub-market increased from 20,400 in 1996 to 54,900 in 2006, an increase of 169%.
- The restriction of access to home ownership is likely to serve to increase the gap between socio-economic groups and could assume a spatial character.
- Renters have become a more diverse group, incorporating more households with children and older renters who will increasingly out-compete households (single parent and single person) that have traditionally relied on the private rental sector. In the Auckland region, better-off households occupy 11.4% (6,630) of all affordable rental dwellings. There is also growing evidence of renting becoming a lifestyle choice for households that cannot afford to buy in suburbs of their choice.
- The fall in ownership rates combined with underlying population growth suggests an additional 5,600 rental units will be required every year for the next 10 years in the Auckland region.
- The necessary investment required in the private rental market is likely to be forthcoming under conditions of strong price growth, but investment might slow in conditions of moderate or low growth in house prices. The likely future scenario is for moderate house price growth of 5–8% per annum.
- Access to home ownership will remain problematic under conditions of population growth and medium to high capital value growth.
- Given the limited capacity of housing policy to influence house price cycles, and the ability of government programmes to mitigate some of the affordability problems faced by target groups, the authors support a supply-side focus for housing policy over the medium to long term.

¹ Briggs *Family Trusts: ownership, size, and their impact on measures of wealth and home ownership*. Discussion Paper 2006/06, Reserve Bank of New Zealand (July 2006). Briggs uses Household Savings Survey (HSS) data, together with data on the number of tax returns from private trusts, to adjust 2001 census tenure data. He estimates an adjusted home ownership rate of 74.9% in 1991, 72.3% in 1996 and 70.5% in 2001. Briggs (2006, p.24) notes “that the trend in home ownership is still down is an important point”.

Findings

Literature Review

The literature identifies two key areas of “market failure” or market imperfections and/or rigidities in this sector that need to be addressed: the shortage of affordable rental housing available for low- and moderate-income households, and the lack of stability and security associated with private rental tenure. The key conclusion around the first area is that government facilitation will probably be necessary to attract institutional investment. The second area has not been satisfactorily addressed in the literature.

Housing Stress

Households paying more than 30% of gross income on housing costs were disproportionately living in Auckland City, younger, couples with children, lower- to middle-income earners, and renters. Between 1996 and 2004, the proportion of stressed renter households fell from 35.4% to 32.7% (possibly due to the introduction of income-related rents in the state sector), and the proportion of stressed owner-occupier households rose from 18.3% to 21.2%.

Population Trends

Auckland region population growth projections in 2006 to 2021 range from 225,200 to 407,300. In 2006 to 2016, the number of households in the region is projected to increase by 92,560, of which 56,000 are expected to be renter households. The total projected growth in Auckland region households represents 47.5% of the total projected growth in the number of households nationwide.

Competition for Rental Dwellings

Better-off households (with gross household income greater than \$70,000 p.a.) occupy 11% of lower-cost rental properties (bottom two quintiles), 34% of middle quintile rental properties and 39% of higher-cost rental properties (top two quintiles).

Affordability

There has been a significant deterioration in home purchase affordability. The research highlights the fact

that affordability problems are not necessarily confined to the lowest income quintiles, but can migrate. There has been growth in the “intermediate housing market” of working households unable to afford to buy a dwelling at the lower quartile house price. From 2001 to 2006, the intermediate housing market grew by 239% due to a number of factors, including a 72% rise in house prices and interest rate growth of two percentage points.

Investor Profiles

Investors in the private rental market are predominantly owner-occupier couples aged 45 or over who earn more than \$70,000 a year. Capital gain is their key investment goal, and they are attracted by the ability to leverage, use their own property as collateral for loans, and manage the investment themselves.

Qualitative Interviews

Key informants with a special interest in the Auckland housing market identified four factors responsible for the decline in home ownership rates: reduction in affordability, demographic changes, cultural and lifestyle changes and government policy changes. Affordability was the most important factor, with prices rising sharply as a result of migration, financing changes, private investor demand and land cost escalation. The declining home ownership rate had both economic and social implications. It would adversely affect wealth accumulation, especially in terms of retirement, and would have implications for social equity, community cohesion, household stability, and education and health outcomes. The historic “transitional” role of the private rental sector, catering for young people prior to moving into home ownership, had reduced significantly as more households remained renters for longer, often permanently. There was a need for institutional investors to ensure adequate supply, and to improve the level of professionalism and rental housing maintenance. For tenants, key issues included security of tenure and lack of landlord professionalism. For landlords, the key issue was the Residential Tenancies Act and its perceived bias towards tenants.

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FINDINGS CONTINUED

Other Market Issues

Home ownership is assuming a more polarised social character. While some households are choosing to rent in areas where they could not afford to buy, there are still strong aspirations towards home ownership. The home ownership and private rental markets are interrelated in a complex way. The growth of the

private rental sector may inhibit first-home buyers' access to home ownership, especially as new housing supply is relatively inelastic. Moderate house price growth of 5–8% is projected for the long term, leading to a potential slow-down in investment in the private rental market, increased rental competition and upward pressures on rents.

Policy Implications

Government housing policy priorities are directed at:

- improving housing assistance and affordability
- improving access to home ownership
- developing the private rental sector.

However, the extent of decline in home ownership rates in New Zealand is unique among countries with mature home ownership markets and may reflect the reliance on limited intervention in the home ownership market in New Zealand.

A shortage of affordable and secure accommodation for poorer households is a key problem in the private

rental market, which is also characterised by an absence of institutional investors and a government housing policy focus on the demand side via income supplementation. Urban planning policies that emphasise containment and increased density also tend to reduce supply and increase prices.

Given the limited capacity of housing policy to influence house price cycles, and the ability of government programmes to mitigate some of the affordability problems faced by target groups, there is a case for a supply-side focus for housing policy over the medium to long term.

Further Information

This bulletin is based on the report *The Future of Home Ownership and the Role of the Private Rental Market in the Auckland Region*. A copy of the report and this bulletin can be found on the CHRANZ website under "Our Publications".

Other useful reports include:

- *Housing Supply in the Auckland Region 2000–2005* Motu Economic and Public Policy Research (March 2007)
- *Regional Housing Markets in New Zealand: House Prices, Sales and Supply Responses* Motu Economic and Public Policy Research (February 2006)
- *Housing Tenure Aspirations and Attainment* DTZ New Zealand (October 2005)
- *Changes in the Structure of the New Zealand Housing Market* DTZ New Zealand (May 2004)

CHRANZ, 28 Grey Street, PO Box 2628, Wellington, New Zealand
PHONE +64 4 439 3326 FACSIMILE +64 4 472 5752
EMAIL kainga.tipu@chranz.co.nz WEB www.chranz.co.nz

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