

Promoting Investment in Private Rented Housing Supply: International Policy Comparisons

Project for Communities and Local Government by:

**Centre for Comparative Housing Research
De Montfort University, Leicester, UK**

&

**OTB Research Institute for Housing, Urban and Mobility
Studies, Delft University of Technology, the Netherlands**

Country Policy Framework New Zealand

Project Director: Professor Michael Oxley
Professor of Housing
Centre for Comparative Housing Research
Leicester Business School
De Montfort University
The Gateway
Leicester
LE1 9BH

Tel: 0116 257 7434
Mobile: 0786 765 0119
Email: MOxley@dmu.ac.uk
Web: www.dmu.ac.uk/cchr

Author: Professor Michael Oxley

Date: 14 September 2010

Promoting investment in private rented housing supply: international policy comparisons

1. Introduction

- 1.1 This report comments on the large and growing private rented sector in New Zealand and the associated policy issues. It shows that there is very little institutional investment in a market driven by falling owner occupation, the prospects of capital gain and favourable taxation.
- 1.2 The report has relied on secondary published material including academic and official sources.

2. Data and information

- 2.1 The size of the private rented sector is shown in Table 1.

Table 1: Tenure of Household⁽¹⁾ 1996–2006 Censuses

Tenure of household	1996	2001	2006
Dwelling Owned or Partly Owned by Usual Resident(s) ⁽²⁾			
Mortgage Arrangements Not Further Defined	18,309	11,832	26,529
Who Make Mortgage Payments	448,374	443,277	405,267
Who Do Not Make Mortgage Payments	394,074	413,550	312,159
Total, Dwellings Owned or Partly Owned by Usual Resident(s)	860,760	868,656	743,952
Dwelling Not Owned by Usual Resident(s)			
Rental Arrangements Not Further Defined	21,534	14,700	6,312
Who Make Rent Payments	290,124	358,890	388,272
Who Do Not Make Rent Payments	45,405	38,607	57,378
Total, Dwellings Not Owned by Usual Resident(s)	357,063	412,200	451,965
Dwelling Held in a Family Trust by Usual Resident(s) ⁽²⁾⁽³⁾			
Mortgage Arrangements Not Further Defined	..	..	13,386
Who Make Mortgage Payments	..	..	72,828
Who Do Not Make Mortgage Payments	..	..	81,711
Total, Dwellings Held in a Family Trust by Usual Resident(s)	..	..	167,922
Not Elsewhere Included ⁽⁴⁾	50,271	63,411	90,336
Total	1,268,094	1,344,267	1,454,175

⁽¹⁾ 'Tenure of household' refers to the nature of the occupancy of a household in a private dwelling, at the time of the survey. It does not refer to the tenure of the land on which the dwelling is situated.

⁽²⁾ Due to classification and questionnaire changes, comparisons between 2006 and 1996 or 2001 should be treated with caution.

⁽³⁾ Information on family trusts was first collected in 2006.

⁽⁴⁾ Not Elsewhere Included includes Response Unidentifiable and Not Stated.

Source: Statistics New Zealand <http://search.stats.govt.nz/search?w=housing&af=ctype%3Astatistics>

Promoting investment in private rented housing supply: international policy comparisons

Table 2: Percentage of Households for Households Paying Rent for the Private Dwelling They Occupy by Sector of Landlord

	Private Person or Business	Housing New Zealand Corporation	Local Authority or City Council	Other State Landlord
1996	72.1	5.4	19.4	3.1
2001	78.4	4.2	15.6	1.9
2006	81.8	3.0	13.5	1.7

Source: Statistics New Zealand <http://search.stats.govt.nz/search?w=housing&af=ctype%3Astatistics>

- 2.2 The proportion of households in rental tenure increased from 41 per cent in 1921 to peak at 49.7 per cent in 1936. Post the Second World War the proportion of New Zealand households in rental tenure declined bottoming out at 26.2 per cent of all households in 1991.
- 2.3 According to Housing New Zealand, the rental market grew by over 35 per cent between 1991 and 2001 (approximately 100,000 households), with 26 per cent of all households renting privately by 2001. New Zealand faces the prospect of more households remaining in private rental accommodation throughout their lifetime (Housing New Zealand, 2006).
- 2.4 In 2006 the Private Rented Sector housed 27.1 per cent of households; 6 per cent were in social rented housing and 66.9 per cent were owner occupiers¹.

3. Investment in private rented housing

- 3.1 A decline in owner-occupation has been accompanied by increased investment in rental property. This investment may not continue, however, if rental yields fall too far behind house prices. In some regions, rental housing returns are below the cost of capital, and investors may be relying on capital gains and tax advantages to make a return on their investments. This may not be a sustainable basis for ongoing investment that delivers a stable rental market.
- 3.2 Ownership in the private rental market is highly fragmented. Landlords with one or two rental properties and full-time jobs in other fields are most common, while large professional landlords are rare. Because of the low density single dwelling form of housing in New Zealand, the benefits of investing in the affordable segment of the rental market are less attractive for institutional investors than in many countries, especially when yields are low. The efficiencies of investing in and managing higher density housing have been unavailable until quite recently with the growth of an apartment sub-

¹ Own calculations from *QuickStats About Housing*, July 2007, Statistics New Zealand, using data from New Zealand's 2006 Census of Population and Dwellings [WWW] Available from <http://www.stats.govt.nz>.

Promoting investment in private rented housing supply: international policy comparisons

market. It also appears that many tenants and landlords regard renting as a second-best housing option, while homeownership is seen as an indication of success. Overcoming such beliefs may require lifting housing quality and improving security of tenure in the rental market. Relatively few investors see themselves as providing housing services (Housing New Zealand, 2006).

3.3 A study of the Auckland area noted that,

“Investors have invested considerably in the Auckland private rental market. Most investment derived from smaller investors with the key investment objective being capital growth. Investors are optimistic and demonstrate a willingness to expand their investment in the rental market. There is no evidence of institutional investment in the private rental market.” (DTZ New Zealand, 2007; p2)

3.4 Capital gains have been an important spur to investment:

“The indicative survey of investors highlights the role of capital gains and income flow as key elements in their investment decisions. The nature of capital value growth in the Auckland over the last 10 years clearly meets the investment criteria of landlords and is responsible for growth in this sector.” (DTZ New Zealand, 2007; p127)

4. Quality issues

4.1 “Many New Zealand rental properties are older homes. As with owner-occupied housing, rental properties are not always well-maintained or equipped with modern features. Many are poorly insulated, and difficult and expensive to heat. Significant upgrading may not be economically viable for landlords.” (Housing New Zealand, 2006; p27)

4.2 It has been argued that there is a ‘quality’ implication of the dominance of small landlordism. The suggestion is that because the private rental market in New Zealand is one dominated by small investors, with an investment focus based on capital appreciation rather than as a long-term rental activity, they tend to spend little on maintenance and improvement (Thorns, 2006).

4.3 It has also been suggested that:

“There are no policies that require or encourage landlords to maintain good quality housing, although some tenants’ advocates are lobbying for something like this. The construction process is covered by the Building Act (1991), but the health effects of substandard housing are covered by regulations dating back to 1947, so are quite basic” (Ditch *et al*, 2001; p141).

Promoting investment in private rented housing supply: international policy comparisons

5. Policy issues

- 5.1 There is low security of tenure but many tenants and landlords are unaware of the legislation. A review of the regulatory framework is underway in terms of the current Residential Tenancies Act (RTA). The maximum lease length allowed is two years – anything fixed beyond that would require a change to the RTA (DTZ New Zealand, 2007).
- 5.2 Compared to other OECD countries New Zealand (like Australia) has treated private renting favourably for tax purpose with generous tax deductibility of costs and no or modest capital gains tax (DTZ New Zealand, 2007).
- 5.3 There is an expectation of growth in the PRS as owner occupation declines because of affordability reasons and the social rented sector remains small. Home ownership fell from 73.8 per cent in 1991 to 68.00 per cent in 2001 and is expected to fall to 61.80 per cent in 2016 (Thorns, 2006).
- 5.4 There are arguments about the exact rate of decline in home ownership and its causes and consequences (Morrison, 2008). However, there is a high probability that unless there are significant policy changes, the future will bring lower home ownership levels and more private renting. The rented stock is also expected to supply larger and higher quality dwellings and house people for longer periods (Morrison, 2008). Given the expectation of a growing sector the Government intends to support the growth of the PRS.
- 5.5 It has been claimed that tenants can usually choose between private sector rentals and state housing, but under the ‘market rent’ policy for state housing there is no price advantage. There is very little subsidised rental housing available from local authorities or community or church-based organisations, and it usually has long waiting lists. The small size of the housing market in New Zealand discourages the establishment of alternative tenure types or methods of housing provision (Ditch *et al*, 2001, p140).
- 5.6 Privately owned housing has been used for social purposes. The government-backed Housing New Zealand Corporation contracts with private landlords and developers through its acquisition and leasing programme to provide an adequate supply of social housing in high demand areas, typically on the basis of ten to fifteen year leases. These leases envisage long-term tenure and the provision of a secure alternative for renters that complements private rental and social housing (Housing New Zealand, 2006).

Promoting investment in private rented housing supply: international policy comparisons

6. Summary: What are the key factors that influence investment in the PRS?

6.1 Investment has been encouraged by a growing demand for private renting as home ownership levels have fallen. Most investors are individuals attracted by prospects of capital gains and a favourable tax regime

7. Reasons for selecting or not selecting New Zealand in the next stage of the research

7.1 Reasons for selecting New Zealand:

- The large and growing private rented sector makes it a potentially interesting country for further investigation.

7.2 Reasons for not selecting New Zealand:

- There is virtually no institutional investment.
- Whilst there are policy concerns about the need to promote the sector and to improve quality there are no clear policy initiatives that seem to be of comparative interest.

Promoting investment in private rented housing supply: international policy comparisons

References

Ditch, J., Lewis, A & Wilcox, S. (2001) *Social housing, tenure and housing allowance: an international review* (London, Department of Work and Pensions).

DTZ New Zealand (2007) *The Future of Home Ownership and the Role of the Private Rental Market in the Auckland Region* (Auckland, CHRANZ and Auckland Regional Council).

Housing New Zealand Corporation (2006) *Building the Future: The New Zealand Housing Strategy* [WWW] Available from www.hnzc.co.nz [Accessed 02/03/10].

Morrison, P. S. (2008) *On the falling rate of home ownership in New Zealand* (Wellington, Centre for Housing Research Aotearoa New Zealand).

Thorns, D. (2006) *New Zealand Housing Strategy for the 21st Century Housing Finance International* 1 June.