# Min Edmonds meeting prep

# Key findings from the report

**Wage inflation and relative supply and demand of dwellings (population/household formation vs construction) are the 2 key drivers of rents over the past 20 years.**

**The impact of change in mortgage interest rates (and other costs to landlords) on rents is positive but relatively small**, consistent with previous findings that NZ land market is restricted.

The identified key drivers are robust to local circumstances, although unobserved region-specific factors can dampen or magnify the effects in particular regions (land use restrictions, development economics, etc)

# How the results compared to Kantar survey results or media headlines

* Increased costs to landlords (mortgage rates or denial of interest deductibility) does not matter/Landlords pointing to increased costs as a reason to raise rents.

**No, costs do matter, just not as strong and consistent as wages and relative supply and demand of dwellings**. In fact, the May 2023 Kantar survey suggests increased cost is one of the main reasons for rents increase.

However, **historically costs (mortgage, rates, insurance) have not always moved with rents, hence the relatively small impact found** in the report (e.g, when costs went down as interest rates dropped, rents did not drop accordingly).

**This suggests rents are not set according to costs to landlords but by renters’ ability to pay along with supply and demand**. Kantar survey suggests the two most common reasons for rents increase are still rents did not go up last year and rents are not in line with market, i.e landlords will raise rents if they can

Of course, **landlords’ costs are very different** – depends on how much they have borrowed and how long ago. **Highly leveraged landlords will be more sensitive to changes in costs/denial of interest deductibility. But the fact that investor’s share is still strong, and we don’t see concrete evidence of landlords selling up means that they are not the majority.**

* Landlords capture all dollar gain in renters’ wage:

No, the rate of change in wages and rents are similar not the $ value. Renters only pay a proportion of their income on rents. E.g if wage is $100 and rent is $30, 1% increase in wage ($10) leads to 1% increase in rent ($3) means that the renter still gains $7 net.

* Landlords look at current tenants’ wage to set rents.

No, rents are set based on market rents, which is determined/capped by all renters’ ability to pay (wages), and supply/demand.

# Current conditions and outlook

Overall, we expect rent price growth to keep rising for new tenancies in the near to medium-term as high net migration continues and construction activity slows down.

Factors impacting Rental Prices:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Upward Pressures** | |  | **Downward / Stabilising Pressures** | |
| **Population Growth** | *Immigration ~78K in year to May 2023 particularly impacting Auckland.*  *Internal Migration adding to demand in comparatively affordable regional markets.* |  | **Increased Supply** | *Rental inflation has been limited in main urban areas where more building has occurred.*  *People unable or unwilling to sell homes in current market have buoyed stock (may cease or reverse if housing market picks up)* |
| **Internal Migration** | *Internal migration away from more expensive areas is putting pressure on rental markets in comparatively more affordable areas.* |  |  |  |
| **Construction slow down** | *Slowed down in activity, may impact the regions disproportionately* |  |  |  |
| **Wage Growth** | *Average wage growth of 6.7% annually in Q2-2023* |  | **Stabilising wage growth** | *Wage growth is still strong, but already down from previous two quarters, and expected to stabilise with recession and seemingly peaked inflation.* |
| **Low unemployment** | *3.6% unemployment*  *(Already up and expected to go up further as the economy goes into recession)* |  | **Potential rise in unemployment** | *As the economy is now officially in recession, unemployment may start to rise, which will slow down household formation and take some of the heat out of rental demand* |
| **Increasing ownership costs, incl. rates, and mortgage interest** | *Some landlords refixing mortgage rates now will be moving from ~3% to over 6%.*  *Interest Deductibility now at 50%*  *Local Council Rates up ~7%*  *Insurance premiums up 10-15%* |  | **“Sticky rents” and tenant loyalty** | *Landlords keeping good tenants and foregoing “market rent”​.* |