### Drivers of rent: HTWG feedback

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| Who | Topic | Comment | Response |
| Tyler | Motivation | One general thought was you mention as a motivation for the paper at the front this is for forecasting but then you don’t really do forecasting later on. I’m not saying you should do any more work but maybe you could downplay the forecasting route if you want to focus on the other areas? |  |
| Tyler | Detailed | Detailed comments in word doc |  |
| Frances | Title/ implied causation | … slight nervousness about the term ‘drivers of rent’ implying causation rather than correlation, and whether this might open us up to criticism (though a more thorough read of the paper makes it clear that we’re not relying/needing a causation for the uses of the modelling).  Although you make clear that the people-per-dwelling measure is being used as a proxy for relative supply and demand of dwellings, and that the modelling is mainly to help with forecasting (therefore the direction of causation isn’t the focus), intuitively it seems that the mechanism will be: relative supply and demand -> higher rents -> crowding rather than relative supply and demand -> crowding -> higher rents. |  |
| Dom | Hamilton/Waikato paper link | I think that both the introduction and the theory section should lean more heavily on the Waikato/Hamilton work and the Land Indicators work. This will help put the rents work in context, and will put some key results in context. Here is my quick articulation of what we should be saying:  “The Ham/Wai report differentiated between a housing system operating under flexible land supply from one operating under constrained land supply. Incomes and physical supply/demand conditions should affect both house prices and rents, regardless of land supply conditions. But financial factors, such as interest rates and taxation, affect the housing market differently depending on the flexibility of land supply. Under conditions of flexible land supply, financial factors would ultimately impact rents more than prices. Under conditions of restricted land supply, interest rates and tax changes would have more impact on the price of houses, while rents would be less affected. This study of the drivers of rents found that wage growth and people per dwelling had the biggest impact on rents, while mortgage rates were found to have an impact that was both economically and statistically very weak. Therefore, the results of this study are broadly consistent restrictions on land supply prevailing in New Zealand.”  We could even include a schematic to explain how land supply affects whether rents or prices are affected when interest rates change. |  |
| Dom | Mortgage rate coefficient | Consistent with the above, the discussion of the mortgage rate coefficients should be more prominent and should refer back to the theory of land supply. When the regressions show only a tiny/weak effect of mortgage rates on rents, we should state that this is consistent with the Ham/Wai hypothesis of restricted land supply, because under conditions of restricted land supply rents should be driven more by physical supply/demand and income, while financial factors tend not to affect rents. |  |
| Dom | Pop vs dwelling coefficient | The regional results find a higher coefficient on population change than on dwelling supply. I don’t understand how that would imply that the construction sector is slow to respond? If the construction sector was slow, I would expect that construction activity would lag population growth, but I wouldn’t expect rents to be less sensitive once the delayed construction activity finally set in. (I’d expect that rents would rise as population growth increased, and then would fall later when construction activity ramped up). So I would delete that part of the key findings.  Also, we seem to be contradicting ourselves. Key finding three indicated that population and housing supply are equally important, while the regional results say the opposite.  I think the whole discussion of whether population change or dwelling change is more important belongs outside of the key findings, since it isn’t really core to the discussion and the models say conflicting things. |  |
| Dom | Impact of inflation | Not core to the discussion, but I still think we should improve the discussion of inflation:  - I think we should simply say that general inflation did not show up as separately significant in the regression of nominal rent growth that used nominal wage growth as an independent variable. That’s not surprising, because inflation should be captured in the nominal wage growth.  - Delete the part saying that inflation “increases landlords’ costs.” That’s only true if there is a relative price change going on. The regression results show that inflation itself doesn’t separately affect rents, that’s all we need to say. |  |
| Dom | Overall vs renters PPD | I didn’t agree with the paragraph that said PPD has shortcomings as a measure of supply/demand balance because it includes all people and all houses, not just renters and rentals. Both people and houses can move between being renters/rented and being owners/owned. This is a very important margin of adjustment for the housing system. Therefore, I think that a measure of supply/demand balance across all houses is more appropriate than a measure that includes only people/houses that happen to be renters/rented at a given point in time.  I suggest that we simply delete that paragraph, but that we continue to include an alternative regression that uses vacancy rates as a measure of supply/demand balance, as it can only enhance the robustness of the results. |  |
| Chris M | Title/summary | Title and first para are a little inconsistent, the 1st para is overly weighted on forecasting for my liking. As long as the results are caveated I wouldn't have any concern keeping the title of drivers. |  |
| Chris M | Lead time of dwellings | Why the lead time of supply of new dwellings onto rent? Is it measurement/consents which is early in the process |  |
| Chris M | Mortgage rate coefficient | Mortgage rate impact on rents is "quite small " can you quantify up front to demonstrate this. I agree with Dom's point about this being quite interesting and drawing it out. |  |
| Chris M | Detailed comments | Clarify supply and demand meaning: population growth relative to new builds.  General inflation doesn't impact rents over and above the impact on wages, otherwise it's not true  Visual inspection in executive summary, maybe something more formal into relationship or correlation |  |
| Chris P | Motivation | I think we can beef up the motivation for this work more; clarify more what this work is and isn’t; tie back to the HTWG’s predictions earlier; and maybe sing some praises for some recent initiatives of folk here (such as HUD and Stats developing regional rental indices) up in the Exec Sum.  I second Dom’s points about contrasting the results against what the HTWG hypothesised earlier.  The 3 motivations given are:  1. better signal of demand & supply for housing as a consumption good (rather than investment good);  2. understanding changing wellbeing impacts for renters;  3. help forecasting (especially of house prices as a function of interest rates and the PV of rents).  To these I’d add:  a) improve understanding of the incidence of policy and economic shocks on house prices versus rents (such as tax, subsidies, interest rates etc);  b) help us test theories of how the land and housing markets operate.  (My (b) is similar to 2, but perhaps elaborates on it.)  Further to Frances’ points, I suggest the paper clarifies in the exec summary the analysis is correlation and observational analysis. Further work by the group and other researchers might consider more structural theoretical models (such as spatial equilibrium) and test those models predictions to improve analysis. |  |
| Chris P | Detailed | Detailed comments in word doc |  |
| Talo | Further research | I would be interested in noting further research could look at the drivers of rents are the lower end of the market (e.g. lower quartile of rents distribution) and the relationship with measures of unmet housing need (e.g. housing register numbers, emergency and transitional housing use). In an earlier slide deck, there was a link between tightness of the rental market and emergency housing grants. Being able to say ‘these are the factors that drive measures of unmet housing need’ would be very useful from both a fiscal and wellbeing perspective.  This can be a next step for the wider research community, not necessarily for the HTWG. |  |