### Drivers of rent conclusions

Recent data innovations have facilitated the empirical research presented in this paper. We have focused our study on rental price growth for new tenancies (a leading indicator of inflation for all tenancies). A new tenancy (‘flow’) Rental Price Index (RPI) has been produced monthly for all of New Zealand, since February 2019 (Stats NZ, 2019). The new index methodology, designed for use with granular administrative rent microdata, has also enable the construction of region-level RPIs underpinning our regional analysis.

The primary finding from our study is that income growth and physical supply and demand have been key drivers of rental prices in New Zealand over the past 20-years. The impact of mortgage rates has been smaller, and not statistically significant in model specifications at the national level. These empirical findings are consistent with the Housing Technical Working Group’s (HTWG, 2022) hypothesis that restrictions on the supply of land for urban use mean that financial factors, such as interest rates, will have a greater impact on house prices than rents. Yet, the inclusion of mortgage rates were found to be statistical significant in regional regressions, with small positive coefficients. These nuisances in results provide evidence to support another Housing Technical Working Group conclusion that New Zealand land markets lie somewhere on a spectrum between completely abundant and completely restricted land supply. In theory, in a completely restricted land supply interest rate changes should have no impact on rents.

This research is part of a broader programme of work being undertaken by the Housing Technical Working Group, which includes: developing a suite of direct indicators to help quantify the magnitude of land supply restrictions in New Zealand; and developing a better understanding of the implications of New Zealand’s tax system on the housing market.

We expect that the analysis presented in this paper will be a useful starting point for a variety of housing market related policy applications, such as: understanding the likely impact of changes in incomes, dwelling supply, and/or population growth on rental prices; and to build macroeconomic forecasts of rental prices (and by implication aid house price forecasts). Further research could include a look at the drivers of rents at the lower end of the market and the relationship with measures of unmet housing need. Low-income households often have little discretion over their level of housing expenditure meaning rent is often the first call on income. In this light, we hope improving our understanding of factors that drive rental prices will be useful for developing public policy from a wellbeing perspective.