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TO RENT OR TO BUY?  
HOUSING TENURE CHOICE IN NEW ZEALAND, 1960-80

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## ABSTRACT

This study analyses the economic aspects of housing tenure choice in New Zealand, 1960-80. The analysis proceeds by way of the building, refining and estimation of a model of household tenure choice, using a considerable body of micro-level data and aggregate time series.

It is argued that the household faces a wealth constraint, a dual budget constraint, and minimum dwelling standard constraints, and that the household's tenure choice depends on the interaction of these constraints and its preference set. The budget constraint is a dual constraint because the true economic price of buying relative to that of renting generally differs from the 'outlay' price of buying relative to that of renting. The outlay prices of housing services are important for households with limited current income available for housing unless the household's wealth constraint is unusually loose. Considerable emphasis is placed on the modelling of the prices of housing services. A sub-model of landlord behaviour and the examination of the operation of the private rental housing market are directed at explaining the path over time of urban New Zealand rents.

Sources of data are as follows. In considering prices and the various constraints on tenure choice I employ my own survey data, collected in Auckland, and time-series data from the New Zealand Department of Statistics (NZDS) and the New Zealand Valuation Department, together with crosstabulation data from various sources. I make use for the first time (for these purposes) of a body of data collected by the NZDS - their Household Sample Survey data - to estimate a cross-sectional tenure choice function. For the examination of national tenure choice trends I had to construct my own estimates of the private sector homeownership rate.

The chief conclusion of this study is that lack of wealth constrains the large majority of 'unwilling' private tenants (who are about three-quarters of all private tenants) to rent. Both interview evidence and cross-sectional econometric work support this conclusion. A second major finding is that the impact of the budget constraint on household tenure choice has varied considerably over time but in terms of economic prices, buying has been consistently (over the last two decades) cheaper than renting for the typical tenure-choosing household with a moderate marginal rate of time preference and a moderate planning period. In times of rapid dwelling appreciation the economic price of buying relative to that of renting is particularly low. In contrast, the outlay price of buying (comprising costs in the current period) has been considerably greater than the outlay price of renting, especially when nominal interest rates have been high, and this fact has undoubtedly deterred a significant proportion of households from buying.

Finally, the decline in the private sector home-ownership rate between 1961 and 1976 was found to be largely due to changes in the 'age:marital status:household size' structure of the population of households. These changes outweighed the net effect of economic factors which worked to raise the home-ownership rate until 1976.

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LIST OF ABBREVIATIONS

AJHR	Appendix to the Journals of the House of Representatives, New Zealand.
CPI	Consumer Price Index.
HCNZ	Housing Corporation of New Zealand.
NHC	National Housing Commission.
NZDS	New Zealand Department of Statistics.
NZVD	New Zealand Valuation Department.
OLS	Ordinary Least Squares.
PSIS	Public Service Investment Society.
RBNZ	Reserve Bank of New Zealand.
SAC	State Advances Corporation.
SOAPT	Survey of Auckland Private Tenants.
SOLARH	Survey of Landlords of Auckland Rental Housing.
WLS	Weighted Least Squares.

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