

# Changes in the structure of the private rental market 1996 to 2023

## Report 1 of 6 - "Trends in the intermediate housing market"

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Livingston and Associates Ltd, funded by the Building Research Levy





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## 1. Introduction

The private rental market has played a critical role in New Zealand’s housing market providing accommodation for low to moderate income households. Between 1986 and 2018, size of the stock owned by private property investors increased by 191% although the total dwelling stock only increased by 53%. Rental dwellings were largely acquired from the existing housing stock. This is reflected in the age and comparatively poorer performance of the rental stock. Despite the expansion of the private rental stock, rents are not well aligned to the needs of low and moderate income households. In 2023, 45% of private renter households paid more than 30% of their gross household income in rent compared to 19% in 1996<sup>1</sup>.

The overall objective of this research project is to build our understanding of how the private rental market has performed since the major reforms of the early 1990s, establish whether there is a mis-match between what the market has delivered in terms of housing rental stock and low- and moderate- income households’ ability to affordably occupy these units, and the extent to which policy, regulatory and investment settings might be expected to mitigate current market limits.

This research project is led by Livingston and Associates Ltd in conjunction with CRESA. The results of our analysis are presented in a series of reports. Livingston and Associates Ltd completed analysis of:

- Trends in the size of the intermediate housing market (can work – can’t buy) between 1991 and 2025; and
- The changes in the structure of the private rental market between 1996 and 2023.

CRESA has completed a review of the literature focused on:

- Housing and proposed “Granny Flat” provisions New Zealand as a potential housing market solution;
- The overseas build to rent (BTR) experience focused on organisations involved in delivery, sources of financing, tenant segments serviced, tenant outcomes, typology and location of supply and the regulatory framework designed to stimulate supply; and
- Evidence review of the societal and economic impacts of housing stress and under-supply of affordable housing.

Livingston and Associates Ltd and CRESA collaborated on the final report which summarised our analysis of the implications of our findings in a housing market and policy context

This report presents Livingston and Associates Ltd.’s analysis of changes in the intermediate housing market between 1991 and 2025.

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<sup>1</sup> Cabinet Paper (2024) – Fixing the housing crisis. Office of the Minister of Housing Infrastructure and RMA Reform.



## 2. The intermediate housing market 1991 to 2025

### 2.1 Introduction

The objective of this section of the report is to present an update on trends relating to the size of the intermediate housing market. The intermediate housing market is a relative measure of the affordability of housing for first home buyers. The intermediate housing market is defined as those households:

- Currently in the private rental market;
- That have at least one member of the household in paid employment; and
- That cannot afford<sup>2</sup> to buy a house at the lower quartile house price under standard bank lending criteria.

The intermediate housing market forms an important segment of the housing market and represents working households unable to affordably buy a dwelling at the lower quartile house sale price. Changes in the relative size of the intermediate housing market reflects changes in first home buyer affordability trends.

There is a number of key terms used in this report. They are defined as follows:

- Ability to “affordably” rent or buy a dwelling;
- Intermediate housing market; and
- Sub-groups within the housing continuum.

#### 2.1.1 The ability to affordably buy a dwelling

In the context of this report the ability of a household to “affordably” rent or buy a dwelling assumes no more than 30% of gross household income from all sources is used to meet its housing costs whether they rent or service a mortgage. Consequently housing is unaffordable when households are spending more than 30% of their gross household income to meet their housing costs whether it’s paying the lower quartile rent, or servicing a mortgage as a consequence of buying at the lower quartile house sale price.

#### 2.1.2 Data sources

The following data sources were used to calculate of the number of households in the intermediate housing market:

- Customised census data from Statistics New Zealand;
- Mortgage interest rates from the Reserve Bank of Zealand statistics series;
- Housing market sale price statistics were calculated based on sales data from Headway systems Ltd; and
- Household and family projections from Statistics New Zealand were used as an input into the modelling associated with the estimation of the intermediate housing market in 2025.

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<sup>2</sup> Housing costs are defined as unaffordable when they exceed 30% of gross household income.

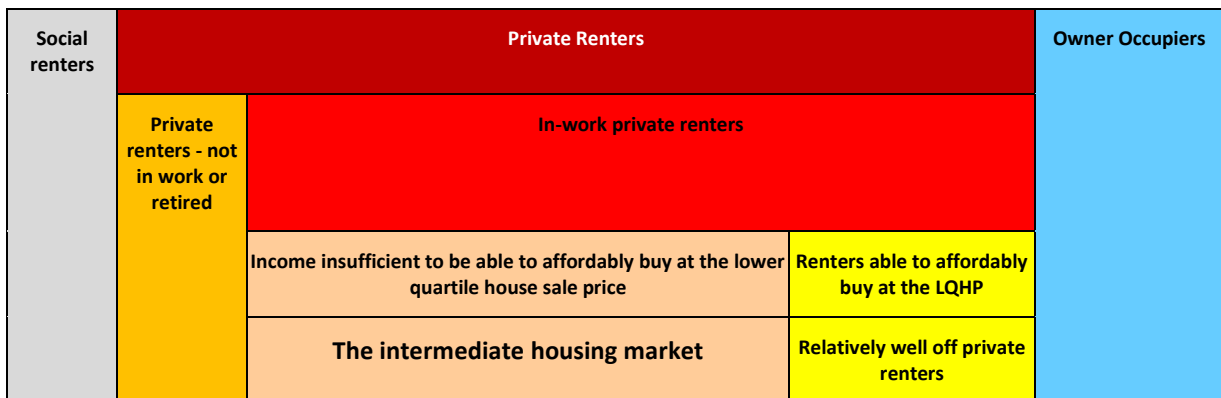


## 2.2 Intermediate housing market overview

The concept of the intermediate housing market was developed in the United Kingdom largely by Stephen Wilcox of the Centre for Housing Policy at the University of York. He published a number of reports between 2003 and 2010 which developed the concept which focusing on the geographical distribution of affordable and unaffordable housing and the ability of working households to become owner occupier. DTZ (2008)<sup>3</sup> adopted this approach to housing affordability analysis and adapted it to a New Zealand context taking into account data availability. DTZ defined the intermediate housing market in a New Zealand context as *“private renter households with at least one person in paid employment, unable to affordably purchase a house at the lower quartile house sale price for the local authority area at standard bank lending conditions.”*

Figure 2.1 presents a more detailed view of the housing market segments.

**Figure 2.1: The intermediate market sub-group**



NB: Note that this diagram is not to scale and does not represent the relative size of each sub group or that groups will move along the continuum. In fact, unless their incomes increase faster than housing costs they may remain in one sub group for extended periods of time.

Changes in the relative size of the intermediate housing market reflect the affordability pressures faced by first home buyers over time.

<sup>3</sup> DTZ (2008), *“The intermediate housing market in New Zealand.”* A research report prepared for Centre for Housing Research, Aotearoa New Zealand.

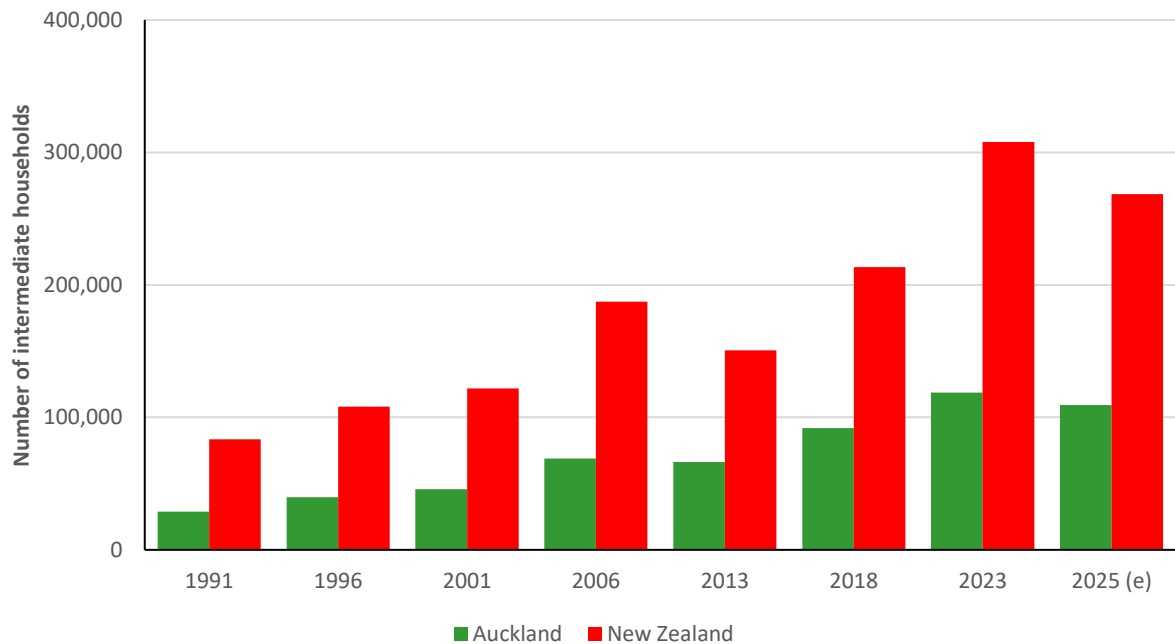


### 2.3 The national trend 1991 to 2025

The intermediate housing market has varied in size as a result of growth in the size of the private renter market as a result of population growth and a fall in the rate of owner occupation, house sale prices increasing faster than the growth in household incomes and, changes in mortgage interest rates. In 1991, the intermediate housing market totalled 83,330 households, or 7% of all households, and by 2025 it is estimated to have grown to 268,400 households or 15% of all households.

Figure 2.2 presents the trend in the size of the intermediate housing market in Auckland and nationally between 1991 and 2025.

**Figure 2.2: Intermediate housing market 1991 to 2022**



Source: Modelled based on data sourced from Statistics New Zealand, RBNZ, and Headway Systems Ltd

The intermediate market has steady increased over the last 34 years with the variation in the growth rate significantly influenced by house prices,<sup>4</sup> changes in the mortgage interest rates, the declining production of low-cost dwelling, and issues of retention of low cost housing under housing price pressure.

<sup>4</sup> Saville-Smith, K., (2019) *Revitalising the Production of Affordable Housing for Productive, Engaged and Health Lives: Integrated Report*, Building Better Homes Towns and Cities National Science Challenge, Wellington; Saville-Smith, K., (2023) *Build Costs, Prices, and Affordable House Retention: A case study of the Starter Home*, A Report for Building Better Homes, Towns and Cities National Science Challenge, Affordable Housing for Generations, Wellington; Mitchell, I., (2015) *Can Work, Cannot Afford to Buy the Intermediate Housing Market*, Report ER%S, BRANZ Funded, Judgeford.



Table 2.1 presents the trend in the number of intermediate households in Auckland and New Zealand between 1991 and 2025.

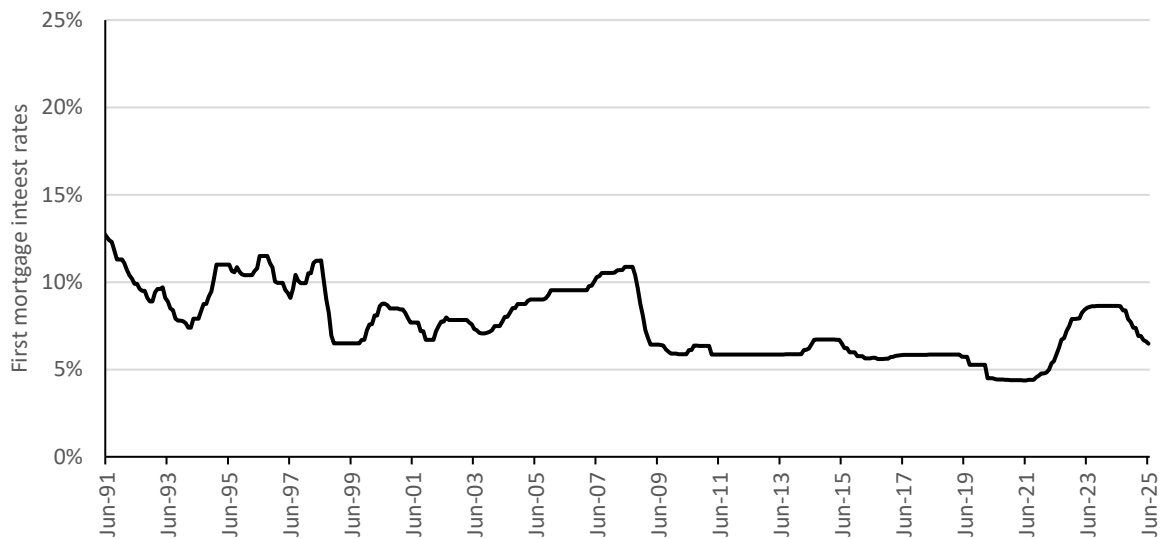
**Table 2.1: The number of intermediate households in Auckland and New Zealand – 1991 to 2025**

	Auckland			Total New Zealand		
	Number of households	Change	Intermediate mkt as a % of all households	Number of households	Change	Intermediate mkt as a % of all households
1991	28,740		9%	83,330		7%
1996	39,640	10,900	11%	108,070	24,740	8%
2001	45,750	6,110	12%	121,930	13,860	9%
2006	68,840	23,090	16%	187,420	65,490	12%
2013	66,210	-2,630	14%	150,630	-36,790	9%
2018	91,800	25,590	18%	213,400	62,770	12%
2023	118,753	26,953	22%	307,920	94,520	17%
2025 (e)	109,200	-9,553	19%	268,400	-39,520	15%
1991 to 2025	+80,460		+10% pts	+185,070		+8% pts

Source: Modelled from data sourced from Headway Systems, RBNZ, and Statistics New Zealand

The number of intermediate household sin New Zealand increased by 122% between 1991 and 2025 (or 3.5% per annum). Over the same period the number of intermediate households living in Auckland increased by 180%, or 4.0% per annum. Growth in the size of the intermediate market between 1991 and 2025 has been tempered by a fall in mortgage interest rates. Figure 2.3 presents the trend in mortgage interest rates between 1991 and 2025.

**Figure 2.3: Mortgage interest rates**



Source: RBNZ



## 2.4 The impact of the key drivers on the size of the intermediate housing market – 2006 to 2025

Table 2.2 presents analysis of the quantum of the impact of the key drivers of the change in the size of the intermediate housing market between 2006 and 2025.

**Table 2.2: Key drivers of the change in the size of the intermediate housing market 2006 to 2025**

Driver	Change in the number of intermediate households				
	2006 to 2013	2013 to 2018	2018 to 2023	2023 to 2025	Total 06 to 25
Growth in total households (population growth)	12,400	18,000	11,500	10,100	52,000
Growth as a result of tenure change <sup>5</sup>	18,700	22,400	9,500	9,300	59,900
Change in interest rates	-44,800	-5,700	37,700	-37,000	-49,800
House sale price appreciation	33,400	64,500	67,400	-4,000	161,300
Household income growth	-56,500	-36,800	-31,600	-17,900	-142,800
Total change	-36,800	62,400	94,500	-39,500	80,600

Source: Modelled from data sourced from Headway Systems, RBNZ, and Statistics New Zealand

The number of households in the intermediate housing market has increased over the past 31 years by approximately 247% nationally (or a compounded annual growth rate of 4.1% per annum) and 277% in the Auckland region (or an annual compounded growth rate of 4.4% per annum). There are now 289,300 intermediate households<sup>6</sup> nationally and 108,500 of these are located in Auckland. Over the same time period, the total number of households living in New Zealand is estimated to have increased by 1.4% per annum.

<sup>5</sup> Excludes population growth

<sup>6</sup> As at 30<sup>th</sup> June 2022



## 2.5 Intermediate housing market by regional council 1991 to 2025

The relative size of the intermediate housing market varies by region. The relativities of household income, house prices and the size of the in-work private sector renters within the housing continuum all are important drivers. In addition, variations in interest rates play a key role.

Table 3.3 presents the trend in the intermediate housing market by region between 2001 and 2025.

**Table 3.3: The Intermediate Housing Market by Region 2001 to 2025**

Region	Intermediate Households (IH)							
	2001	2006	2013	2018	2023	2025 (e)	2001 to 2025	
							Hhlds	% Inc
Northland	4,000	5,100	3,600	5,100	8,510	6,580	+2,580	65%
Auckland	45,700	68,800	66,200	95,400	118,750	109,190	+63,490	139%
Waikato	11,300	16,500	12,100	19,600	31,160	26,690	+15,390	136%
BOP	9,200	12,600	8,400	14,600	19,400	16,700	+7,500	82%
Gisborne	900	1,400	700	1,000	2,130	1,950	+1,050	117%
Hawkes Bay	4,200	6,100	4,100	5,400	8,100	6,430	+2,230	53%
Taranaki	2,100	3,400	2,500	2,900	5,710	4,790	+2,690	128%
Manawatu- Whanganui	4,900	7,800	4,600	6,300	12,160	9,760	+4,860	99%
Wellington	14,400	23,300	17,700	23,700	34,720	28,460	+14,060	98%
Tasman/Nelson/Marl	4,000	6,200	5,400	6,500	8,520	7,320	+3,320	83%
West Coast	300	700	400	400	960	820	+520	173%
Canterbury	15,100	24,700	17,900	18,300	38,250	32,320	+17,220	114%
Otago	4,600	8,800	6,100	9,500	15,280	13,640	+9,040	197%
Southland	1,000	1,800	1,100	1,400	4,270	3,750	+2,750	275%
Total	121,900	187,400	150,600	210,000	307,920	268,400	+146,500	120%

The size of the intermediate housing market increased in all regions with West Coast, Otago and Southland experiencing the highest percentage growth. Other regions experiencing above national average growth rates include Auckland, Waikato, and Taranaki regions.



Table 4.4 presents the trend in the size of the intermediate housing market as a percentage of total households by region between 2001 and 2025.

**Table 4.4: The intermediate housing market as a proportion of all households by region 2001 to 2025**

Region	2001	2006	2013	2018	2023	2025 (e)	% pt change 01 to 25
Northland	7.8%	9.5%	6.1%	8.4%	12.1%	9.1%	1.3% pts
Auckland	11.7%	15.9%	14.1%	18.5%	22.0%	19.3%	7.6% pts
Waikato	8.9%	12.0%	8.1%	12.8%	17.7%	14.5%	5.6% pts
BOP	10.6%	13.3%	8.2%	12.5%	16.2%	13.5%	3.0% pts
Gisborne	6.3%	9.3%	4.6%	6.7%	12.5%	11.1%	4.8% pts
Hawkes Bay	8.1%	11.1%	7.2%	9.3%	12.9%	10.0%	1.9% pts
Taranaki	5.4%	8.5%	5.8%	7.6%	11.9%	9.8%	4.4% pts
Manawatu- Whanganui	6.0%	9.3%	5.3%	7.4%	12.8%	10.0%	4.0% pts
Wellington	9.2%	14.0%	10.1%	13.3%	17.9%	14.4%	5.2% pts
Tasman/Nelson/Marl	8.9%	12.4%	9.1%	11.3%	13.7%	11.6%	2.7% pts
West Coast	2.7%	5.7%	3.3%	3.9%	6.8%	5.7%	3.0% pts
Canterbury	8.2%	12.4%	8.7%	9.5%	15.4%	12.7%	4.5% pts
Otago	6.7%	11.9%	7.8%	11.5%	16.5%	14.5%	7.8% pts
Southland	2.7%	5.2%	3.0%	4.2%	10.6%	9.1%	6.4% pts
Total	9.1%	12.9%	9.7%	12.9%	17.3%	14.6%	5.5% pts

Nationally, intermediate households as a proportion of total households peaked at 17.3% in 2023 before easing back to 14.6% in 2025. The fall in the relative size of the intermediate market between 2023 and 2025 was as a result of a slight easing in house sale prices, a fall in mortgage interest rates and growth in household incomes.

In 2025, intermediate households as a proportion of all households was highest in Auckland(19.3% of all households) followed by Waikato (14.5% of all households), Otago (14.5% of all households), Wellington (14.4% of all households) , Bay of Plenty (13.5%)and Canterbury (12.7% of all households). The regions with the lowest relative concentration of intermediate households were West Coast (5.7% of all households), Northland (9.1% of all households) and Southland (9.1% of all households).

Auckland experience the largest increase in the relative size of the intermediate housing market between 2001 and 2025 increasing from 11.7% of all households to 19.3% in 2025 an increase of 7.6% percentage points. Other regions experiencing strong growth in the relative size of their intermediate housing markets over the same time frame include Waikato (up 5.6 percentage points), Gisborne (up 4.8 percentage points) Wellington (up 5.2 percentage points, Otago ( up 7.8 percentage points) and Otago (up 6.4 percentage points).



## 2.6 Summary

In summary, the intermediate housing market has continued to increase albeit with fluctuations in both the number of households and as a proportion of total households driven as a result of fluctuating interest rates, changes in house slae prices, growth in household incomes and changes in the size of the private rental market. Changes in the size of the intermediate housing market reflect the fall in first home buyer affordability in New Zealand and its composition includes a large proportion of key and essential workers who make a significant contribution to regional economic activity.