



NZ Residential Rental Market

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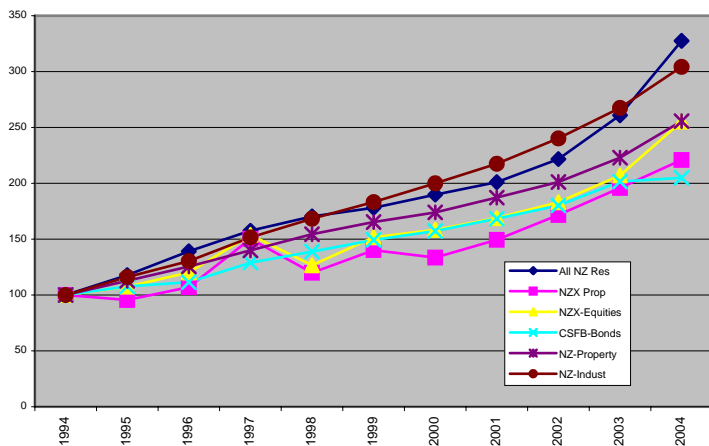
How Does Investor Housing Stack Up?

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DATA SOURCE The private sector rental data is supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate Institute and Quotable Value NZ statistics.

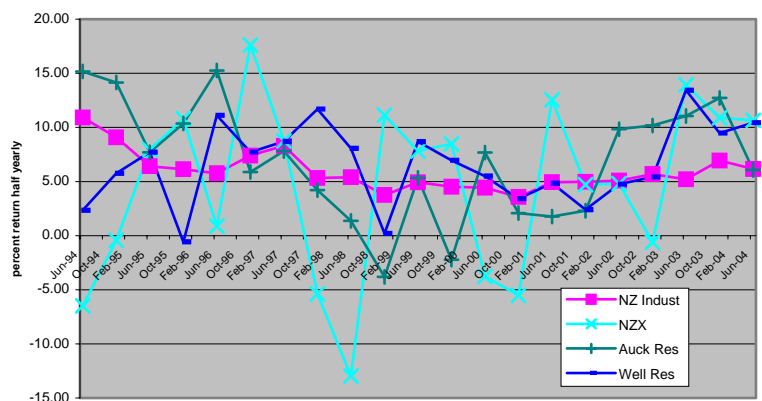
Index Comparisons

The chart below compares the total returns for a number of asset classes over the period 1994-2004. Data has been taken from the Property Council (PC) Investment Performance Index, the NZ Stock Exchange (NZX) and the investor housing index reported in the last edition of this publication. The total returns from each asset class were set to a common base of 100 in 1994. The asset classes represented are residential investor housing, the NZX property sector, the NZX top 50 shares, the CS First Boston bond series, the PC overall property series and the PC industrial property series.



Volatility of Returns

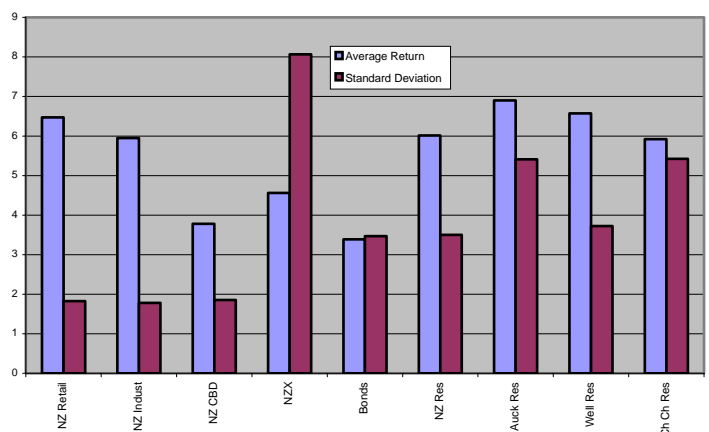
The standard deviation of returns is used to measure volatility on the first chart below. As expected the NZX showed more volatile total returns than the PC industrial property series, as well as the Auckland and Wellington residential series. Both the NZX and the residential series are transaction based indices whereas the PC indices rely on property valuations. Research shows that valuation based indices tend to have a smoothing effect and thus understate actual volatility. Auckland residential shows up as being more volatile than the Wellington residential series.



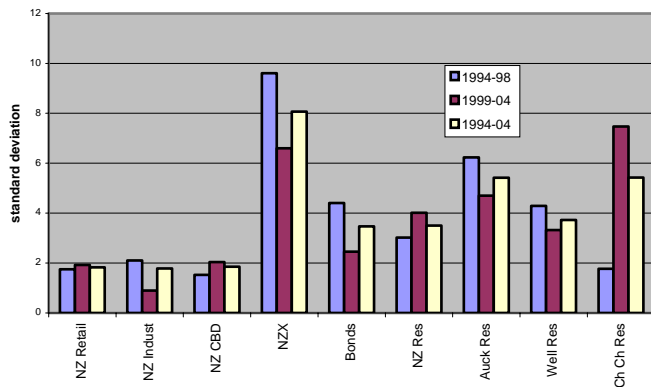
Conventional “wisdom” says that in terms of total returns (over a reasonable time period) direct property investment normally sits below equities and above bonds. The reason for this being equities are riskier and bonds are safer, than property. Some what surprisingly the above chart shows that the returns from several property series have exceeded those of the NZX top 50. It can be argued that the period selected for the analysis favours property and is not long enough to be a true reflection of total returns. Unfortunately the private sector residential rental data series only goes back to the early 1990s so it is not possible to test this argument. However, the residential series is calculated on an un-leveraged basis and actual returns to equity for the majority of investors are likely to be higher than those shown in the index. The performance of the NZX property series (indirect property investment) appears to mirror the overall NZX index, rather than the direct property investment as reflected in the PC series.

Risk and Return

A graphical illustration or the trade off between risk and return for a series of asset classes (1994-2004) is shown on the chart below.



Average returns and risks (as measured by the standard deviations) have been calculated for the 1994-2004 period. They show the PC indices for retail and industrial property are relatively low risk and high return. Residential investor houses in Auckland and Wellington also showed quite high total returns. Central business offices (CBD) showed low volatility and relatively low returns. New Zealand equities were both high risk and low return. As expected bonds showed the lowest average returns but their volatility was higher than most of the property indices. To determine the effect of the recent property boom on the results the data were split into two groups and then compared with whole period returns. The chart below measures volatility for the periods 1994-1998, 1999-2004 and from 1994-2004. The most noticeable changes were the reduced volatility of equities and the increased volatility for Christchurch residential, during the second period.



Current Rental Levels by TLA

Over the last quarter the national level of median rent for private sector rental accommodation increased by \$10 to \$260 per week, up 6 percent on the same period in 2004. A snap shot of rents in the main TLAs over the period October 2004 to October 2005 is shown in the table at the top right. Over this period rents in the larger North Island cities remained relatively static but Dunedin and Christchurch showed significant gains. Small rental increases were recorded in a number of the North Island provincial cities.

Apartments Rents

Rents for Auckland apartments continued to fall with the overall apartments category reducing 20 percent in last quarter. The table below shows apartment rents from October 2003 to October 2005. Rentals in the Wellington apartment market have been much less volatile than Auckland. Rents for the overall Wellington apartment category were up 3 percent in the last quarter.

Auckland City-Weekly Rents \$

	Oct-03	Oct-04	Oct-05
1 bed	302	290	250
2 bed	400	387	320
3 bed	500	420	370
all	340	340	270

Wellington-Weekly Rents \$

	Oct-03	Oct-04	Oct-05
1 bed	280	260	290
2 bed	297	355	350
3 bed	387	442	450
all	290	330	340

Median Rents

	October 04	July 05	October 05
Whangarei	197	220	230
North Shore	340	340	340
Waitakere	290	290	300
Auckland	320	320	320
Manukau	290	300	305
Papakura	260	275	280
Hamilton	235	250	245
Tauranga	250	260	260
Rotorua	180	185	185
Gisborne	170	190	182
Hastings	200	220	210
Napier	225	240	240
New Plymouth	190	220	220
Wanganui	145	156	157
Palmerston North	210	200	227
Kapiti	220	220	225
Porirua	220	225	225
Upper Hutt	200	227	227
Lower Hutt	220	235	230
Wellington	290	300	300
Nelson	230	240	250
Christchurch	240	250	260
Dunedin	200	212	240
Invercargill	160	160	150
All NZ	245	250	260

Massey University Property Foundation

The foundation is established to sponsor research and education in property related matters in New Zealand. The Chairman of Trustees is Mr Bill Cleghorn. Funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has established a Real Estate Analysis Unit to operate out of both Massey University's Palmerston North and Albany campuses. The secretary of the Foundation is Alison Smith, Phone (09) 486-5224.

Massey University Real Estate Analysis Unit

The primary objective of the Massey University Real Estate Analysis Unit (MUREAU) is to provide reliable property information to the property industry, the land related professions and the public.

The Director of MUREAU is Professor RV (Bob) Hargreaves. MUREAU also offers a consulting service for individual clients. MUREAU publications, free on request are:

- 1 The AMP Banking Home Affordability Report (Quarterly)
- 2 Rural Real Estate Market Outlook (Quarterly)
- 3 Auckland Commercial Market Outlook (Quarterly)
- 4 Christchurch Commercial Market Outlook (Quarterly)
- 5 Wellington Commercial Market Outlook (Quarterly)
- 6 Auckland Residential Market Outlook (Quarterly)
- 7 Christchurch Residential Market Outlook (Quarterly)
- 8 Wellington Residential Market Outlook (Quarterly)

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