



NZ Residential Rental Market

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Gross Rental Yields

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DATA SOURCE This index has been developed from private sector rental data supplied by the Ministry of 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.

Gross Yields

The gross yield is the number which when divided into gross income gives the value of a property. Gross yields are a commonly used benchmark for establishing value in the investor housing market. Investors favour gross yield valuations because there is good market rental and market sales information available for most classes of residential property. The gross yields for houses, flats and apartments are shown in table below. This information was extracted from a comprehensive survey of landlords covering approximately 1580 properties and conducted by the author in June 2004.

	Houses	Flats	Apartments	
Mean	6.7	6.8	7.5	
Median	6.4	6.5	7.2	
Percentiles				
	10	4.2	4.5	5.2
	20	5	5.1	5.7
	30	5.5	5.6	6.3
	40	5.9	6	6.8
	50	6.4	6.5	7.2
	60	6.8	7	7.3
	70	7.4	7.5	8.2
	80	8.1	7.8	8.8
	90	9.4	10.5	10.1

The above results appear to be intuitively satisfactory because the higher capital appreciation associated with houses is partially offset by lower gross yields. The next table at the top right shows the average capital appreciation over the period of ownership. On average ownership was less than 3 years. The reason why houses appreciate faster than single investment flats and apartments is probably because there are more options available to house owners, including conversion back to owner occupation, redevelopment of the site to more intensive usage and selling off part of the land. The land component normally appreciates faster than the improvements and houses have a higher ratio of land to improvements than flats and apartments. Another reason why apartments may be increasing in value at a slower rate than houses is there is a greater chance of oversupply when large apartment developments are brought onto the market. Also, there is likely to be a higher level of profit on multi-unit developments since individual buyers do not have the option of dealing directly with a builder and reducing/eliminating developer's profit.

	Houses	Flats	Apartments	
Mean	21.3	12.2	11.7	
Median	13.3	9.4	9.7	
Percentiles				
	10	2.7	5	0
	20	5.5	6	2.5
	30	8	7.3	4.2
	40	10.3	8.6	7.3
	50	13.3	9.4	9.7
	60	17.1	11.3	11
	70	22.4	15	13
	80	30.1	16.4	16
	90	47.8	22.6	32.2

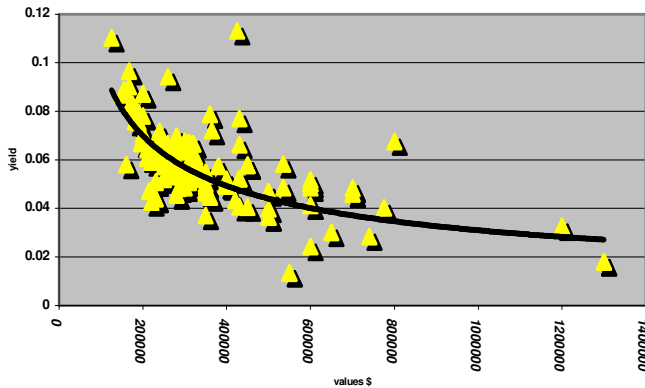
The table below shows variations in the gross yields for houses from Auckland, Wellington and Christchurch.

	Auckland	Wellington	Christchurch	
Mean	5.8	6.7	6.8	
Median	5.7	6.1	6.6	
Percentiles				
	10	3.9	4.5	5
	20	4.7	5	5.8
	30	5.1	5.3	6
	40	5.4	5.6	6.5
	50	5.7	6.1	6.6
	60	6	6.4	7.1
	70	6.4	6.9	7.7
	80	6.8	7.2	8
	90	7.9	8.6	9

The result was as expected with the market perceiving future capital growth prospects highest in Auckland followed by Wellington and then Christchurch. Gross yields are not consistent across a range of property values within the same type of property. The chart on page 2 is a scatter plot showing the gross yields for a sample of Auckland houses against the value of the individual properties. There is a clear pattern of yield rates decreasing as the values of properties increase. This relationship does not appear to be linear and the curve that best fits the data is logarithmic. This may be because at the more expensive end of the market renters are unwilling to pay additional rent for some of the features that add value to a house. For example extra

bathrooms and views may be less important than extra bedrooms. This difference in yields did not appear to be driven by capital gain considerations. The average annual capital appreciation expressed by percent did not appear to favour the more expensive properties.

Auckland houses gross yield by value



With gross yields now close to bank deposit interest rates there is a concern that some investors may not have taken sufficient account of the running expenses and risks associated investor housing. (The next issue of this publication will report on the net yields investors have been achieving). The benefits of leveraged rental housing investments also start to diminish as mortgage interest rates rise. Over the last 2-3 years capital appreciation has more than made up for lower gross yields, but indications are that house prices are at or near a cyclical peak.

Apartments Rents

Apartment rents for Auckland and Wellington continued to track down over the last quarter. This is thought to be related to a reduction in net migration and an increased supply of new apartments. The tables below shows apartment rents from July 2003 to October 2004.

Auckland City-Weekly Rents \$

	Jul-03	Jan-04	Jul-04	Oct-04
1 bed	330	320	300	290
2 bed	420	385	420	387
3 bed	450	490	489	420
all	362	350	340	340

Wellington City-Weekly Rents \$

	Jul-03	Jan-04	Jul-04	Oct-04
1 bed	290	290	310	260
2 bed	350	362	380	355
3 bed	440	387	415	442
all	350	335	367	330

Current Rental Levels by TLA

Over the last quarter the national level of median rent for private sector rental accommodation settled at \$245 per week, slightly down on the May/June level of \$250 per week. A snap shot of rents in the main TLAs over the period October 2003 to October 2004 is shown in the table at the top right. Over this period the most significant rental increase was in Tauranga (up 13.6%). However, most TLAs are showing rental levels about where they were 12 months ago.

	Oct 03	July 04	Oct 04
Whangarei	180	190	197
North Shore	340	350	340
Waitakere	285	295	290
Auckland	325	320	320
Manukau	282	285	290
Papakura	260	260	260
Hamilton	220	240	235
Tauranga	220	245	250
Rotorua	175	180	180
Gisborne	165	170	170
Hastings	190	200	200
Napier	210	225	225
New Plymouth	180	200	190
Wanganui	140	140	145
Palmerston North	200	190	190
Kapiti	200	210	210
Porirua	210	220	220
Upper Hutt	200	180	200
Lower Hutt	220	220	220
Wellington	290	290	290
Nelson	230	235	230
Christchurch	230	240	240
Dunedin	200	210	200
Invercargill	160	160	160
All NZ	230	240	245

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 Natalie McLelland, Phone (06) 3505799 ext. 2321.

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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