

NZ Residential Rental Market

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Tracking Auckland City Suburbs

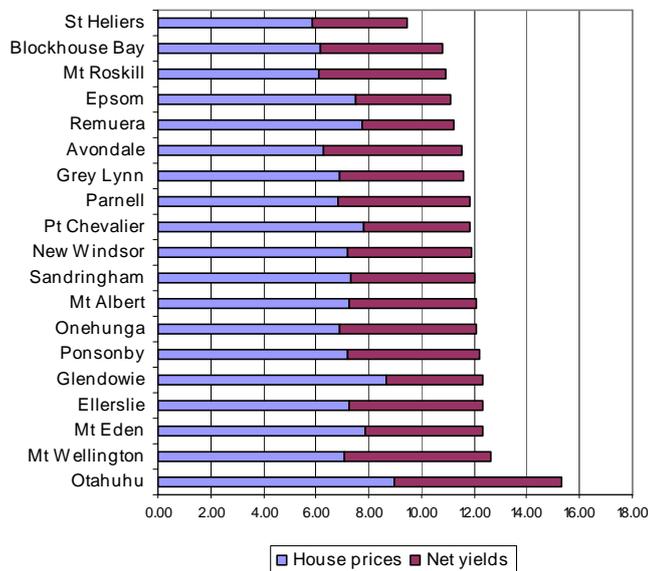
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DATA SOURCE This index has been developed from private sector rental data supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics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

Total Returns by Suburb

Private sector residential property investors aiming to achieve optimal total returns need to be able to identify the best performing suburbs in a city. Some suburbs achieve higher than average yields while other suburbs show better than average rates of house price appreciation. The challenge for investors is to calculate all over total returns by suburb and to balance this against risk. This edition analyses the investment performance of nineteen suburbs within Auckland City.

The suburbs selected for the study were those where it was possible to match the property sales, rental and census databases and where there were sufficient monthly transactions over the period 2000-2009. Suburbs where the housing form was not dominated by detached single family homes were excluded. The ranking of suburbs by total return over the period 2000 to 2009 is shown in the chart below. This chart splits the total annual return up by average yields and average changes to house values.



The suburb showing the highest return by a clear margin was Otahuhu with an average net total return of 15.3% over the period 2000-2009. Otahuhu showed both the highest net yield (6.3%) and the highest annual average increase in property values (8.9%). The net yield result was unsurprising since Otahuhu had the lowest median

house price of all the suburbs analysed and is also a lower income suburb.

The House Price Factor

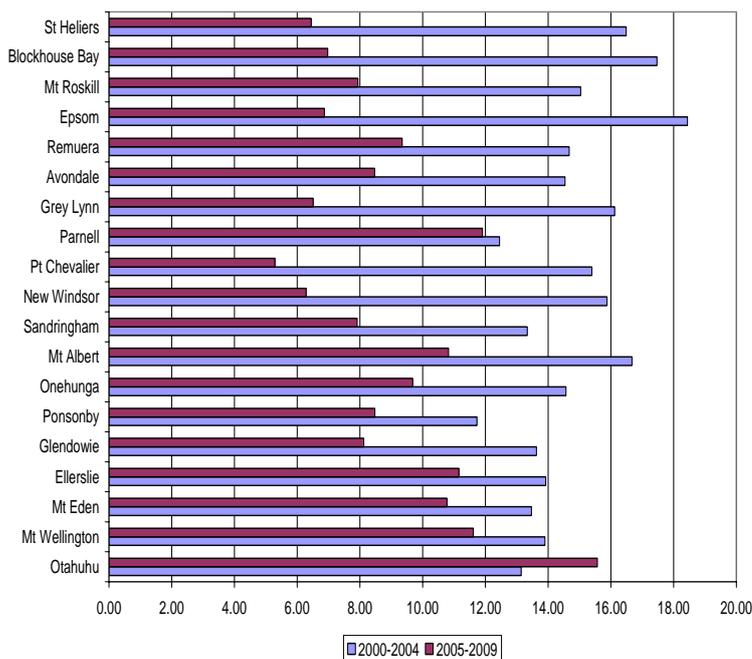
Somewhat surprising, at first glance, was the fact that Otahuhu also showed the highest average level of annual capital gain. This may be partly due to increased government social welfare payments and housing subsidies that made both rents and mortgage payments more affordable for low-income people over the decade studied. Statistics New Zealand census data (2006) shows household income in Otahuhu increased by 43% from 2001-2006 compared with a 30% average increase for all the suburbs in the study. In addition, during the period studied private sector investment in rental housing increased overall in New Zealand as home ownership rates fell by around 0.75% per year. Generally property investors could outbid first home buyers for starter type homes because they had the advantage of taxation benefits not available to owner occupiers. This resulted in the prices for starter homes increasing at a faster rate than the city wide average house price. In 2006 the percentage of rental housing in Otahuhu was approximately 63% compared with the city wide average of 44%.

On the other end of the scale the suburb with the lowest total return was St Heliers, one of the wealthy areas with high house prices and where only 24% of householders were renters in 2006. Again this result is unsurprising since yields generally drop off in the more affluent suburbs. While there is a trend for lower priced housing suburbs to enjoy higher net yields there are some exceptions. For example, Ponsonby ranks 7th in net yields but is the third most expensive suburb. On the other end of the scale Blockhouse Bay is 4th least expensive in housing but only 13th in net yields. Clearly other factors are involved.

One of these factors was highlighted in a study of the effects of high school zoning on house prices by Michael Rehmn in 2008. He showed part of the expensive, but underperforming, suburb of Epsom was in the process of losing its zoning to the highly rated Auckland Grammar School. Buyers typically pay a premium of up to \$100,000 for houses in the Grammar zone compared to similar houses in the same neighbourhood that are out of zone. In 2003 Alan Latham identified the gentrification of Ponsonby as a reason why this expensive inner city suburb was likely to continue attract a rental population of high income young urban professionals.

Split Data

The chart below shows total returns by suburb split into two five yearly periods, 2000-2004 and 2005-2009. With the exception of Otahuhu, all the remaining suburbs showed higher returns during the first five yearly period, which included the run up in house prices. Suburbs where net yields are low are generally the most volatile in terms of total returns because capital gain depends on the vagaries of the property cycle. However, volatility of total returns is only one measure of risk since some of the lower income suburbs have higher crime rates than the city wide average.



Median

Rents

	Nov-08	Aug-09	Nov-09
Whangarei	275	280	272
North Shore	390	375	390
Waitakere	330	332	345
Auckland	350	360	360
Manukau	350	350	355
Papakura	310	320	300
Hamilton	280	280	290
Tauranga	300	300	300
Rotorua	220	220	225
Gisborne	230	240	240
Hastings	260	250	260
Napier	287	295	280
New Plymouth	280	280	280
Wanganui	180	185	192
Palmerston North	250	250	260
Kapiti	280	287	300
Porirua	320	300	330
Upper Hutt	245	270	250
Lower Hutt	295	285	300
Wellington	378	350	382
Nelson	300	285	300
Christchurch	290	285	285
Dunedin	260	240	260
Invercargill	190	200	197
All NZ	295	290	300

Massey University Property Foundation

The Foundation is established to sponsor research and education in property related matters in New Zealand. 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. Donna Dowse is the Secretary/Treasurer. She may be contacted on 06 357-4032

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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Rental Levels Move Up

The national median weekly rent for the quarter ending November 2009 increased by \$10 (3.4%), compared with the quarter ending August 2009 and \$5 (1.7%) compared to the November 2008 quarter. The increase since August is most likely related to demand pressures caused by increased net migration, particularly in the main North Island centres. Rents appear to have now largely recovered from the downturn reported in the September 2009 edition of this publication.

Over the last year 14 cities showed increased rents, 6 were unchanged and 4 recorded negative rental growth. The strongest annual growth was in Kapiti (7.14%), followed by Wanganui (6.67%) and Waitakere (4.55%). The largest decrease was in Papakura (-3.23%), then Napier (-2.44%) and Christchurch (-1.72%).

Further details on rentals is contained in the table in the top right hand column.