

NZ Residential Rental Market

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Tracking Christchurch 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.

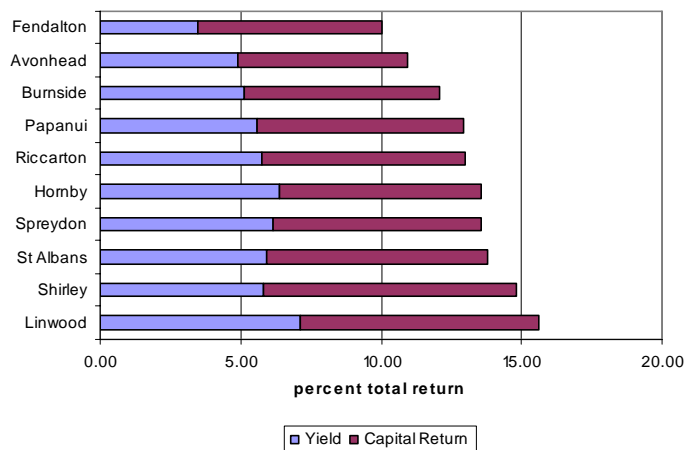
Christchurch City Suburbs

Residential property investors aiming to achieve above average total returns need to be able to identify the best performing suburbs within a city. The ten Christchurch city suburbs selected for this analysis were those where it was possible to match the property sales and rental databases and where there were sufficient monthly transactions over the period 1999-2009.

Annual total returns are a function of rents, less expenses, plus changes in the value of the property. The analysis was done on a before tax basis assuming 100% investor equity.

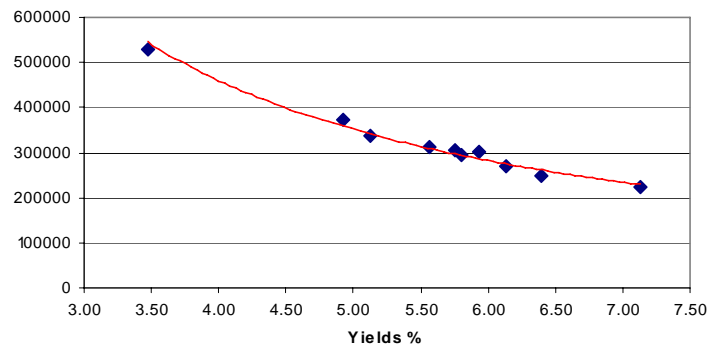
The chart below shows the average total returns by suburb over the period 1999 to 2009. Linwood (the lowest cost suburb) was the best performer over this period in terms of net yield and second to Shirley in capital appreciation. The poorest performing suburb was Fendalton, the most expensive suburb analysed.

Similar results were reported in the December 2009 edition of this publication where low cost Otahuhu was the best performing Auckland suburb. Higher than average rates of capital appreciation in lower cost suburbs are thought to be a function of Government subsidies including the accommodation supplement (a rental subsidy) and welcome home loans for first home buyers. In addition taxation advantages accruing to property investors allowed them to generally outbid first home buyers.

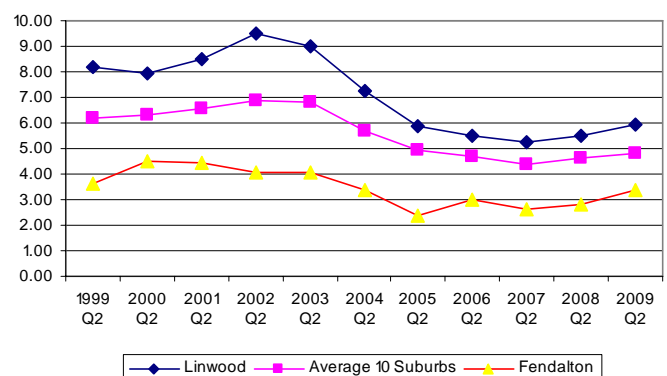


Yields

Net yields are the relationship between the net income and the selling price of investor houses. The first chart below maps 2009 net yields against selling price for the ten Christchurch suburbs. Clearly, yields drop off in the more expensive suburbs and over the period 1999-2009 this was not compensated for by increased capital appreciation in the more expensive suburbs.



The chart below shows the trend in net yields from 1999-2009 for Linwood, Fendalton and the average of the ten suburbs. Net yields are influenced interest rates and capital appreciation. Generally a high rate of appreciation in house prices will depress yields, as seen in the 2002-2007 property boom. The interesting question is when, or indeed if, yields will return to their pre 2002 levels. Yields could increase if rents are increased or house prices lowered, or a combination both variables. Currently prices remain "sticky on the downside". Only modest increases in rents are likely in a low wage growth economy.



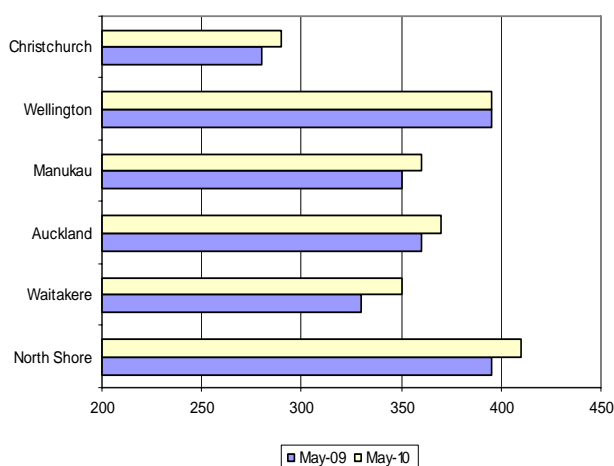
Taxation

Budget 2010 introduced a number of taxation changes likely to have a negative impact on the profitability of investor housing. Depreciation on most residential buildings is no longer allowed and the “pass through” rule for loss attributing qualifying companies means the shareholders will be taxed at their personal tax rate, not the company tax rate. In addition, government is providing increased funding for enforcement where taxpayers are thought to be avoiding paying tax on “property flipping” activities.

Will these changes result in a significant exodus of investors from the housing market? Investors will need to weigh up their options. For example the unleveraged Christchurch returns shown on page one are much higher than would have been achieved from Bank term deposits and do not show the volatility of share market investments. In addition, significant numbers of investors may find that selling in less than ten years places them in the property trader category whereby they pay income tax on capital gains. In the short run the supply of investor housing is likely to be reduced and this will act to moderate downward pressure on house prices.

Overall Rents Remain Subdued

Over the last quarter the national median weekly rental remained at \$300 per week and has been static for more than a year. North Shore City recorded the highest median weekly rent (\$410), exceeding Wellington which was \$400 in February but slipped back slightly to \$395 in May. Waitakere City showed the greatest year on year percentage increase at 6%. The table in the right hand column compares current rents with the previous quarter and the same period a year ago. Auckland regional rents continue to be a leading indicator to future national trends. Demographic projections indicate Auckland is where upward pressure on rents will occur because the supply of rental accommodation is lagging behind population growth. The chart below shows the movement in median rents over the last twelve months for the four main Auckland cities together with Wellington and Christchurch.



Median

Rents	May-09	Feb-10	May-10
Whangarei	270	280	280
North Shore	395	395	410
Waitakere	330	340	350
Auckland	360	360	370
Manukau	350	375	360
Papakura	320	320	330
Hamilton	290	300	295
Tauranga	300	310	310
Rotorua	225	230	230
Gisborne	240	240	240
Hastings	250	270	260
Napier	290	290	300
New Plymouth	280	297	280
Wanganui	200	210	200
Palmerston North	250	250	250
Kapiti	285	280	295
Porirua	310	340	305
Upper Hutt	295	290	260
Lower Hutt	310	310	310
Wellington	395	400	395
Nelson	295	300	300
Christchurch	280	290	290
Dunedin	240	252	250
Invercargill	200	200	210
All NZ	299	300	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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