



**Massey
University**

NZ Residential Rental Market

March 2005

Quarterly Survey Volume 8, Number 1

Net Rental Yields

Prepared by
Bob Hargreaves*

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.

Net Income

Net income is the potential gross income less an allowance for vacancy and bad debts less the expenses of operating the property. The annual expenses of operating a residential investment property normally comprise of rates, insurance, repairs and maintenance, management, other expenses (such as travel and accounting) and body corporate (if applicable). The annual cash expenses associated with houses, single flats and apartments are shown in the first table below. The percentiles in the table illustrates the wide range of expenditure patterns within the main types of dwellings. A possible explanation is the lumpy nature of money spent on repairs and maintenance. Some investors, particularly new investors, reported very low levels of expenditure on repairs and maintenance. This information was extracted from a comprehensive survey of landlords covering approximately 1580 properties and conducted by the author in June 2004. The higher expenses shown for apartments are mostly related to body corporate expenses.

	Houses	Flats	Apartments
Mean	2767	2498	4742
Median	2250	2036	3500
Percentiles			
10	1415	1050	1801
20	1650	1274	2160
30	1818	1584	2530
40	2000	1802	2882
50	2250	2036	3500
60	2500	2200	3950
70	2868	2501	4959
80	3400	3000	5900
90	4497	4455	8275

The ratio of expenses to gross income for houses, single flats and apartments is shown in the table below. It is noticeable that apartment expenses now show up as being more in line with houses and flats because body corporate expenses are largely offset by the higher rents achieved by apartments which are typically near the central business district.

	Houses	Flats	Apartments
Mean	22.7	21.4	22
Median	18.4	18	19.8
Percentiles			
10	10.2	10.1	10.4
20	12.3	11.8	12.4
30	14.5	13.5	15.4
40	16.3	15.4	18.9
50	18.4	18	19.8
60	21.1	21.2	20.9
70	24.6	24	23.2
80	27.8	26.5	26
90	36	34.9	35.6

Net Yields

The net yield is the number which when divided into the net income gives the value of the property. The percentage net yields for houses, flats and apartments are shown in first table below.

	Houses	Flats	Apartments
Mean %	5.1	5.4	5.6
Median %	5.1	5.5	5.6
Percentiles			
10	3.1	3.1	3.5
20	3.8	4.2	4.4
30	4.3	4.6	4.8
40	4.7	5	5.1
50	5.1	5.5	5.6
60	5.6	5.9	5.8
70	6	6.3	6.1
80	6.5	6.8	6.5
90	7.2	7.9	7.4

The lower net yields associated with houses is thought to be related to fact that houses generally showed higher rates of capital appreciation than flats and apartments due to a higher land content. The yields on apartments may have been pushed up by developers offering guaranteed rents for an initial period of 2-3 years.

Management

One of the features of the New Zealand residential investor market is that most investors self manage their properties. In the case of this survey approximately 95% of the houses were self managed. This means the expenses reported in the previous tables under estimate the real costs of owning an investment property and make it difficult to make comparisons across asset classes. The next table below shows the adjusted ratio of expenses to gross income for houses in Auckland, Wellington and Christchurch with management costs are charged at 7.5% of actual gross income.

	Auckland	Wellington	Christchurch
Mean	25.06	30.31	30.42
Median	22.31	27.52	23.49
Percentiles			
10	15.29	18.96	17.55
20	16.93	20.85	18.73
30	18.37	23.35	20.25
40	20.40	24.19	21.49
50	22.31	27.52	23.49
60	23.76	30.31	25.31
70	26.78	34.55	27.69
80	31.19	36.85	32.20
90	36.87	42.68	37.70

Adjusted Net Yields

The first table below shows the adjusted net yields for houses in Auckland, Wellington and Christchurch with management costs included for all houses. On a risk/return basis property is generally perceived as being more risky than bank deposits so it seems likely investors are placing increased reliance on capital appreciation.

		Auckland	Wellington	Christchurch
Mean %		4.39	4.80	4.97
Median %		4.32	4.44	5.01
Percentiles				
10		2.85	2.74	3.45
20		3.33	3.34	4.12
30		3.82	3.79	4.39
40		4.10	4.04	4.64
50		4.32	4.44	5.01
60		4.61	4.82	5.41
70		4.94	5.16	5.87
80		5.41	5.47	6.30
90		6.01	6.04	6.71

Total Returns

The overall return being achieved by investors is the net cash return from the property divided into the value of the property and expressed as a percentage, plus capital gain less capital expenditure also expressed as a percentage of value. The next table uses survey data to compare the total returns for houses, flats and apartments. Readers should note that this snapshot overstates the medium term performance of rental property because returns are so heavily influenced by the capital appreciation from the recent property boom.

		Houses	Flats	Apartments
Mean %		26.42	26.93	17.33
Median %		18.48	17.44	15.31
Percentiles				
10		5.81	6.48	3.52
20		9.29	9.57	6.83
30		12.35	12.23	8.93
40		15.03	14.15	12.38
50		18.48	17.44	15.31
60		22.66	22.33	16.82
70		28.35	30.34	19.09
80		36.61	40.16	22.54
90		54.98	48.82	39.64

Apartments Rents

Auckland City-Weekly Rents \$

	Jul-03	Jan-04	Jul-04	Oct-04	Jan-05
1 bed	330	320	300	290	285
2 bed	420	385	420	387	370
3 bed	450	490	489	420	420
all	362	350	340	340	327

Wellington City-Weekly Rents \$

	Jul-03	Jan-04	Jul-04	Oct-04	Jan-05
1 bed	290	290	310	260	260
2 bed	350	362	380	355	340
3 bed	440	387	415	442	450
all	350	335	367	330	350

Apartment rents in Auckland and Wellington continued to weaken, possibly due to reduced demand from slowing net migration and new several new projects being completed.

Current Rental Levels by TLA

Over the last quarter the national level of median rent for private sector rental accommodation moved up \$5 to \$250 per week. A snap shot of rents in the main TLAs over the period January 2004 to January 2005 is shown in the table at the top right. Over this period the most significant rental increase were in Tauranga, New Plymouth, Hastings and Dunedin. However, most TLAs are showing rental levels about where they were 12 months ago.

	Jan 04	July 04	Jan 05
Whangarei	185	190	200
North Shore	340	350	330
Waitakere	300	295	300
Auckland	325	320	320
Manukau	300	285	290
Papakura	260	260	270
Hamilton	230	240	240
Tauranga	230	245	255
Rotorua	175	180	180
Gisborne	165	170	180
Hastings	190	200	220
Napier	220	225	222
New Plymouth	200	200	220
Wanganui	140	140	152
Palmerston North	195	190	200
Kapiti	200	210	200
Porirua	220	220	240
Upper Hutt	180	180	172
Lower Hutt	220	220	225
Wellington	290	290	300
Nelson	230	235	240
Christchurch	235	240	250
Dunedin	205	210	225
Invercargill	160	160	160
All NZ	240	240	250

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 acting secretary of the Foundation is Donna Dowse, 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)

Inquiries concerning this publication and other research papers prepared by MUREAU may be addressed to:

MUREAU
 Department of Finance, Banking and Property
 Massey University, Private Bag 11.222
 Palmerston North
 Telephone: +64 6 350-5799 ext: 2321
 Facsimile: +64 4 350-5651

<http://property-group.massey.ac.nz/mureau/mureau.htm>