

# NZ Residential Rental Market

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## Future Investment Prospects

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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.

### Auckland City Suburbs

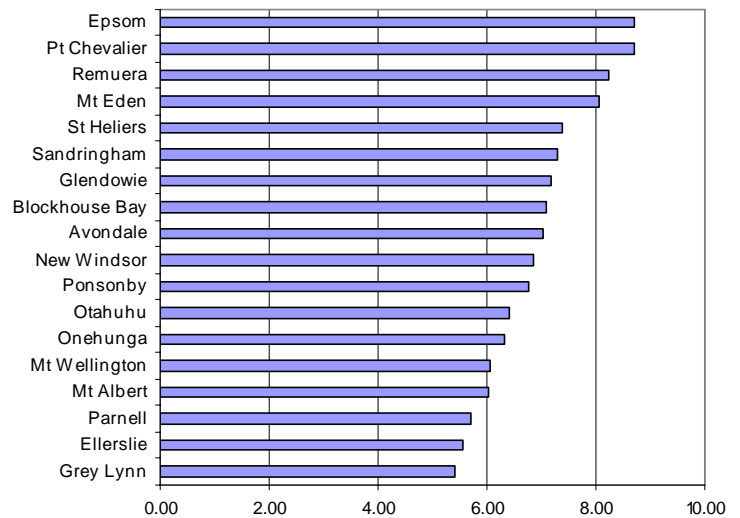
The December 2009 issue of this publication outlined the historical average total returns (2000-2009) from investor housing in 19 Auckland City suburbs. This edition considers the future investment prospects from a selection of these suburbs.

The 5 yearly New Zealand census reports information on household incomes. Average household income levels in a suburb are strongly correlated with house prices. For example, in 2006 the suburban household income to house price correlation coefficient was 84% across 43 Auckland suburbs from the four main cities in the Auckland region. Rents are even more highly correlated with household incomes. The correlation coefficient between Auckland City suburbs combined rents and household incomes in 2001 and 2006 was 89%. The first chart on the top right column shows the average ratio of household income to house prices, by suburb in 2006. The average for all 19 suburbs was 6.9.

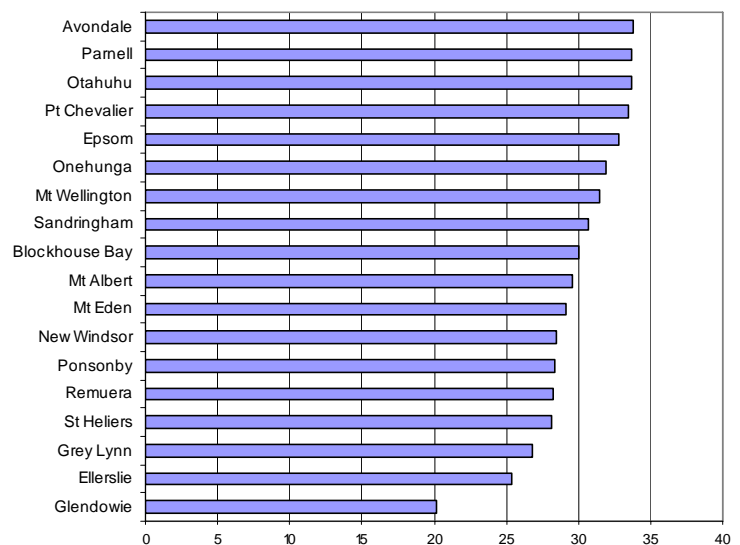
It is likely the best suburbs for future residential investment are those where household income to house price ratios and household income to rent ratios are lower than average, and there is a trend for household incomes and rents to be increasing above the city wide average. This is because there may be greater prospects for affordable future rental increases. Using the household income to house price approach identified six top prospects (Grey Lynn, Ellerslie, Parnell, Mt Albert, Mt Wellington and Onehunga).

Suburban data showing the percentage of household income needed to pay the rent is illustrated in the second chart to the right. Across the 19 suburbs analysed the average was 30%, using data from the 2006 census. Grey Lynn and Ellerslie are two suburbs that have low income to house price and income to rent ratios as shown in the charts to the right.

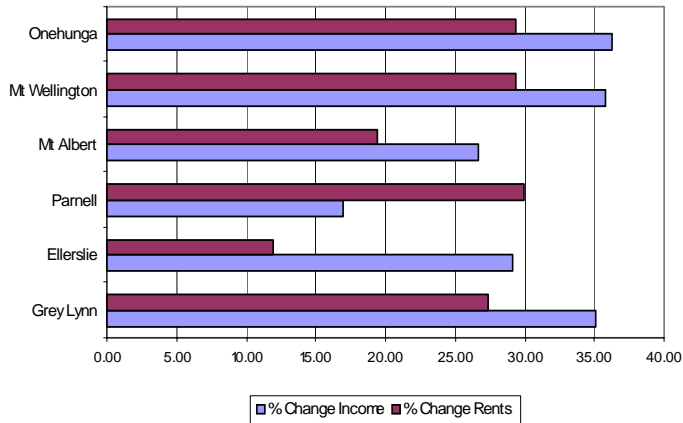
Grey Lynn appears to offer above average future investment prospects because it is conveniently situated next to the trendy suburb of Ponsonby and is close to the CBD. In addition, the Grey Lynn housing stock comprises mainly old villas with some of the streets close to Ponsonby already being gentrified.



Investment opportunities are enhanced because the full gentrification of Grey Lynn will take some years to be completed. Ellerslie is an older suburb with good linkages to the nearby Southern motorway and a large retail complex at Sylvia Park. Employment prospects in this suburb are increasing with new office towers being built on surplus racecourse land adjacent to the Southern motorway.

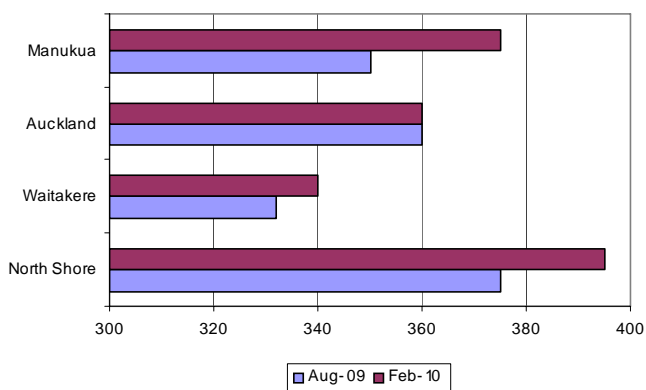


The chart below shows the percentage changes in household incomes and rents from 2001 to 2006. With the exception of Parnell the remaining five suburbs all showed greater growth in household incomes than in rents. Parnell is a high priced inner city suburb with some investment benefits from a diversified portfolio approach but is a suburb where affordability will remain a problem for the average renter.



### Some Rental Levels On The Move

Although the national median weekly rental remains at \$300 per week there is increasing evidence that rents in some cities are moving up. The table in the right hand column compares current rents with the previous quarter and the same period a year ago. Auckland regional rents are often a leading indicator to future national trends. The chart below shows the movement in median rents over the last six months for the four main cities in the region. The reason Auckland City shows nil overall rental growth appears to be relate to the composition of the housing stock. Auckland City has a much higher percentage of flats and apartments than the other three cities. Throughout the region most of the current growth in rents is associated with stand alone houses, the dominant form of housing.



Rents in Wellington City also showed strong growth over the last six months and the median rent hit \$400 per week for the first time. Pressure on rents in Auckland and Wellington is thought to a combination of strong net migration, investors exiting the market due to uncertainty over possible new tax rules and a protracted slow down in new construction.

### Median

| Rents            | Feb-09 | Nov-09 | Feb-10 |
|------------------|--------|--------|--------|
| Whangarei        | 270    | 272    | 280    |
| North Shore      | 390    | 390    | 395    |
| Waitakere        | 330    | 345    | 340    |
| Auckland         | 360    | 360    | 360    |
| Manukau          | 360    | 355    | 375    |
| Papakura         | 305    | 300    | 320    |
| Hamilton         | 300    | 290    | 300    |
| Tauranga         | 300    | 300    | 310    |
| Rotorua          | 230    | 225    | 230    |
| Gisborne         | 250    | 240    | 240    |
| Hastings         | 292    | 260    | 270    |
| Napier           | 272    | 280    | 290    |
| New Plymouth     | 280    | 280    | 297    |
| Wanganui         | 180    | 192    | 210    |
| Palmerston North | 250    | 260    | 250    |
| Kapiti           | 300    | 300    | 280    |
| Porirua          | 310    | 330    | 340    |
| Upper Hutt       | 250    | 250    | 290    |
| Lower Hutt       | 300    | 300    | 310    |
| Wellington       | 385    | 382    | 400    |
| Nelson           | 297    | 300    | 300    |
| Christchurch     | 299    | 285    | 290    |
| Dunedin          | 260    | 260    | 252    |
| Invercargill     | 200    | 197    | 200    |
| All NZ           | 300    | 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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