



NZ Residential Rental Market

September 2003

Quarterly Survey Volume 6, Number 3

Rental Investments

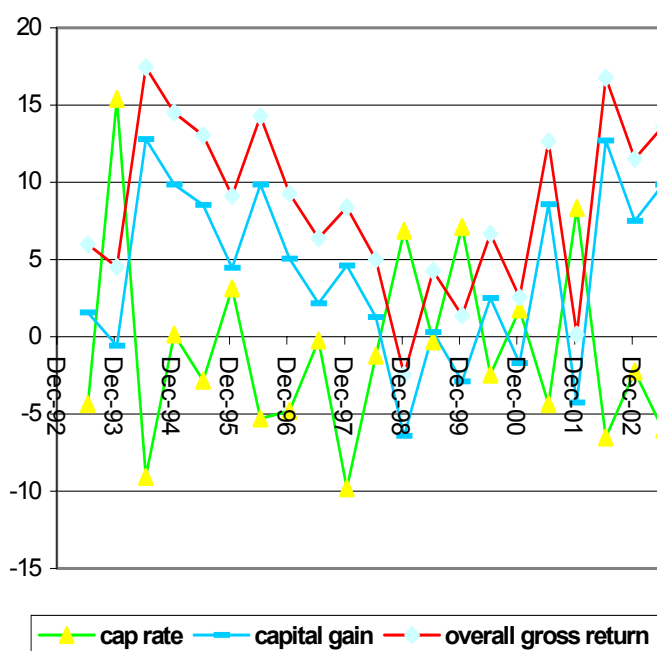
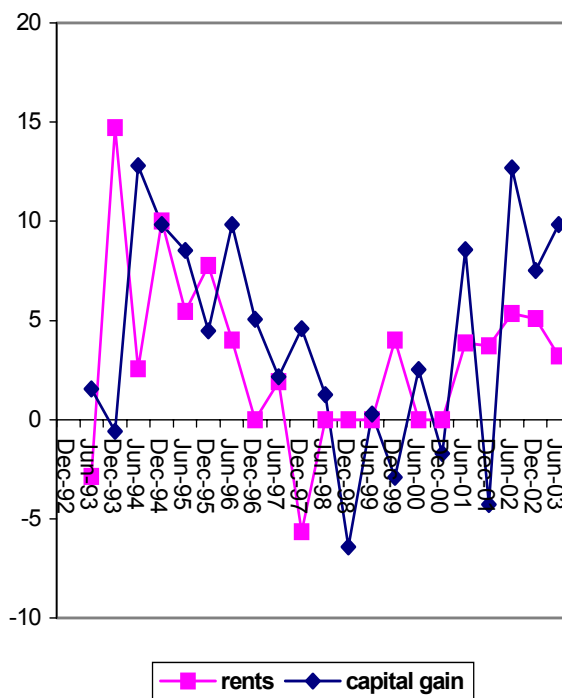
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DATA SOURCE This index has been developed from private sector rental data supplied by the Ministry of Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House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

Rental Levels

The national level of median rent for private sector rental accommodation remained at \$220 per week over the last quarter. A snap shot of rents in the main cities over the period July 2002 to July 2003 is shown below. It is interesting to see rents in Invercargill have moved up 18% over the period compared with the national increase of 10%.

	July-02	Dec-02	July-03
Whangarei	165	180	185
North Shore	295	320	320
Waitakere	250	265	280
Auckland	295	310	320
Manukau	250	280	280
Papakura	230	240	250
Hamilton	195	200	210
Tauranga	190	210	220
Rotorua	165	170	175
Gisborne	145	150	160
Hastings	160	165	175
Napier	180	190	189
New Plymouth	150	170	180
Wanganui	130	125	140
Palmerston North	170	190	180
Kapiti	190	200	200
Porirua	180	210	210
Upper Hutt	160	180	167
Lower Hutt	200	207	210
Wellington	260	280	285
Nelson	195	210	220
Christchurch	190	200	220
Dunedin	145	170	180
Invercargill	130	135	160
All NZ	200	210	220



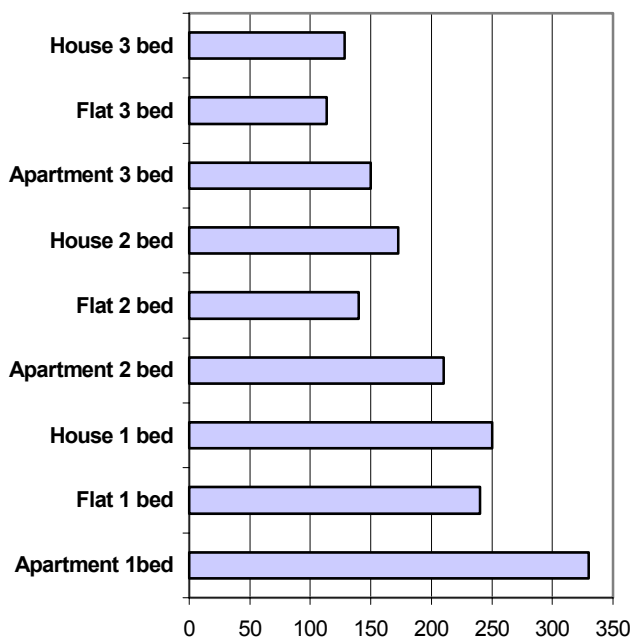
Auckland Rents and House Prices

The chart at the top right tracks the percentage changes in Auckland City rents and house prices (capital gain) over the period June 1993 to June 2003. During this period median rents increased by 82% and average house prices by 124%. The second chart on the right shows the percentage changes in Auckland City capitalisation rates, capital gains and overall gross returns from June 1993 to June 2003.

Some commentators have recently been warning residential property investors about the hazards of placing too much reliance on capital gain at the expense of cash flow from rents. It is apparent that gross returns shown on the second chart are mainly being driven by the changes in property values over time. It is interesting to note that Auckland capitalisation rates have been gradually declining over time. For example, the Auckland City capitalisation rate declined from 4.433% in 1993 to 3.771% in 2003. This represents a 15% decline. The capitalisation rate used here is the relationship between median rents and average house prices. No allowance has been made for the expenses a landlord would be faced with such as rates, insurance, repairs and maintenance, and management. On a net income basis capitalisation rates would be around 2.5%. Some commentators have argued a better measure would be to use lower quartile house prices as rental properties are typically from this sector. Which ever method used these results show that after taking account of expenses residential property investors in Auckland are heavily reliant on capital gain to offset the low capitalisation rates being used in the market.

Location Does Matter

According to location theory, rents increase as we move closer to the central business district. Increased rents in central locations are offset by a reduction in transportation costs and time savings. The chart below shows median weekly rents for Auckland City expressed as the cost per bedroom for apartments, flats and detached houses. Apartments show the highest level of rents per bedroom and are generally confined to central and fringe central business district locations. Conversely detached houses and flats are typically located in the suburbs.



Rent Per Bedroom

People renting in the residential market typically use the rental costs per bedroom as one of the main bench marks when comparing properties on offer. This makes sense because the bedroom offers private space in a shared flat. The reason the rent per bedroom for houses is generally higher than for flats is because houses tend to be more spacious than flats. Also houses have more land associated with them and this allows greater privacy. The chart in the left hand column shows that rent per bedroom generally decreases as the number of bedrooms increases. The reason for this is that the cost of adding an extra bedroom is relatively low since bedrooms typically have minimal fittings. Furthermore, the expensive fixed cost elements in a building (such as kitchens and bathrooms) cost less per square metre when spread over the larger floor plate associated with a home containing multiple bedrooms.

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 Gordon Davies. 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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