

# NZ Residential Rental Market

## September 2009

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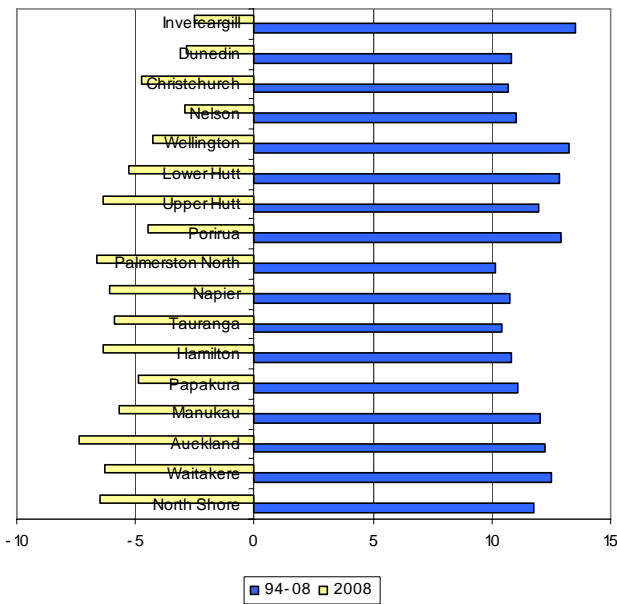
### More on Rental Investments

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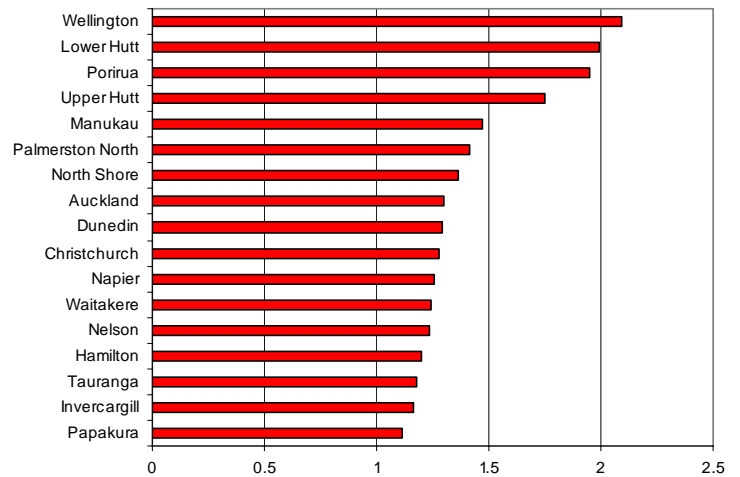
**DATA SOURCE** This index has been developed from private sector rental data supplied by the Department of Building and Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted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

#### Total Returns Negative in 2008

This publication has been tracking the total returns investors are making from rental houses since 1994. Total annual returns are the net yield plus changes in property values calculated on a before tax basis and where there is no mortgage. The chart below shows the average annual percent total returns from 1994 to 2008 for the main urban areas in blue and the 2008 return in yellow. Clearly 2008 was not a good year for investors as the cash flow from rents were not high enough to offset decreases in property values across all major urban centres.



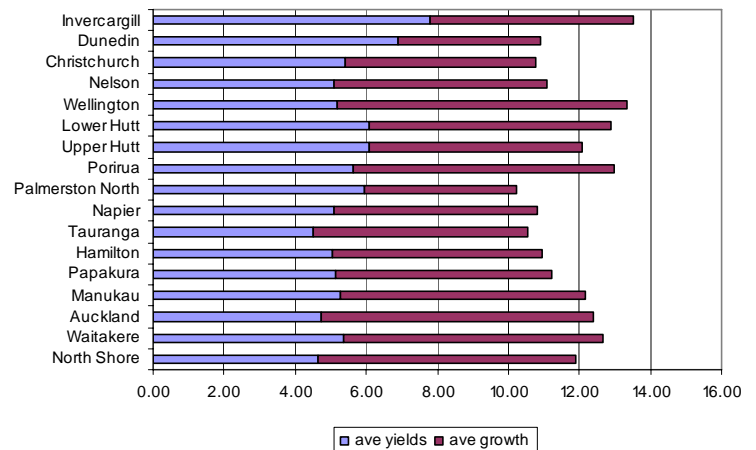
divided into the standard deviation of returns.



Looking at historical data is not necessarily a good guide to the future. The fact Wellington and the surrounding cities in the region top the above chart could be under threat in an era of government deficits leading to a reduction in employment in the Wellington based public service. Demographic projections make it likely that future population growth will be greatest in the Auckland and Bay of Plenty regions.

#### Yields

The chart below shows average yields and changes in property values from 1994-2008. The way the market operates is over time investors generally can't expect to have high yields and above average increases in property values. Clearly, there has

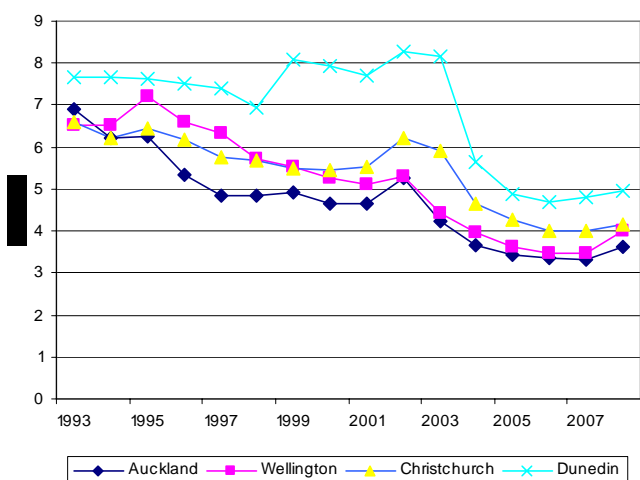


#### The Risk Return Trade Off

At first glance Invercargill appears to be an attractive location for rental housing investment because it has shown the highest average total returns (13.48%) over the 1994-2008 period. However, Invercargill has also shown the greatest volatility of returns as measured by the standard deviation of returns (11.35%). When the data is reordered taking the risk return trade off into account Invercargill appears to be a much less attractive investment location. The next chart (at the top of the right hand column) shows how the main urban centres are ranked when taking risk and return into account. In this case the average total return from 1994-2008 is

been more emphasis on capital gain in areas where there has been strong population growth such as in the Auckland region and less emphasis on capital gain in the slower growing South Island regions.

Net yields generally showed a downward trend over the period 1994-2008, but have recently increased slightly as a result of decreases in house values. The chart below shows the yield profile for the main cities. It is noticeable that net yields have been well under mortgage interest rates for most of the last 15 years. This is due in part to the reliance many property investors have on being able to operate their rental properties at a loss that can be written off against other income, thereby reducing taxable income. A risk of such loss making investment strategies is that the government may change the rules in relationship to rental housing and loss attributing qualifying companies.



### Rental Levels Down

The national median weekly rent for the quarter ending August 2009 was down by \$9 (3%) compared with the quarter ending May 2009 and \$10 (3.3%) compared to August 2008. The reduction since May is significant because it is unusual to see such a large reduction in the national median rent over one quarter. Possibly this drop in rents is a reflection of affordability issues relating to the increased rate of unemployment and weakness in the economy. Also in periods of downturn some landlords are willing to reduce rents rather than accept higher vacancy rates.

Another somewhat surprising factor to emerge from the data was the weakness in the Wellington regional rental market over the last quarter. Reductions in rentals were seen Wellington (11.3%), Lower Hutt (8.0%), Upper Hutt (8.4%) and Porirua (3.2%). Other cities showing significant quarterly rental decreases included North Shore (5.0%), Hamilton (3.4%), Wanganui (7.5%) and Nelson (3.3%).

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

### Median Rents

	Aug-08	May-09	Aug-09
Whangarei	270	270	280
North Shore	395	395	375
Waitakere	330	330	332
Auckland	350	350	360
Manukau	350	350	350
Papakura	312	320	320
Hamilton	282	290	280
Tauranga	300	300	300
Rotorua	230	225	220
Gisborne	240	240	240
Hastings	270	250	250
Napier	280	290	295
New Plymouth	280	280	280
Wanganui	190	200	185
Palmerston North	250	250	250
Kapiti	280	285	287
Porirua	320	310	300
Upper Hutt	285	295	270
Lower Hutt	300	310	285
Wellington	360	395	350
Nelson	292	295	285
Christchurch	295	280	285
Dunedin	220	240	240
Invercargill	190	200	200
All NZ	300	299	290

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