

# NZ Residential Rental Market

## September 2012

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### Buy and Hold

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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.

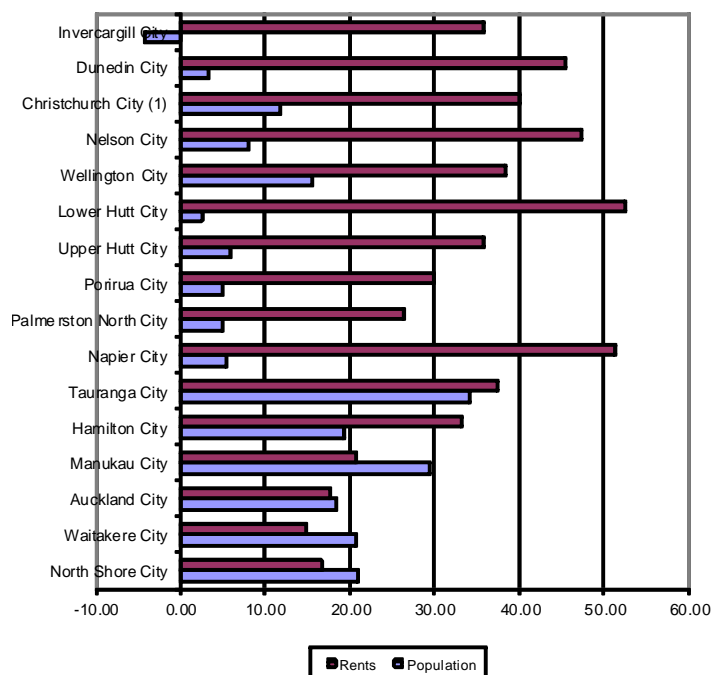
Most residential property investors invest locally because they are likely to understand their local housing market and if necessary can self manage their investments. However there are exceptions, particularly some larger investors who are trying to minimise risks by spreading their rental housing portfolio over different localities. Adopting a diversification strategy raises the question about which localities have shown the largest percentage rental growth over time. The table below uses historical rental information for three bedroom homes to rank various localities by rental growth over the period April 1993 to March 2012. Of course historical rental information is not necessarily a good guide to future rental growth but it does provide some understanding about what drives growth. The results are generally unsurprising. The larger north island cities show the best growth with Invercargill something of an outlier. The resurgence in Invercargill perhaps partly due various incentives such as the no fees Polytechnic attracting students from outside the region, together with a strong rural economy and a low base.

#### Median Rents

	Apr-93	Mar-12	% Change
Wellington	210	490	133.33
Invercargill	100	225	125.00
Auckland	240	510	112.50
Tauranga	160	340	112.50
Whangarei	140	297	112.14
North Shore	222	470	111.71
New Plymouth	160	327	104.38
Waitakere	190	380	100.00
Papakura	180	360	100.00
Napier	160	320	100.00
Upper Hutt	180	360	100.00
Lower Hutt	180	360	100.00
Christchurch	180	360	100.00
Manukau	200	395	97.50
Gisborne	140	275	96.43
Nelson	180	350	94.44
Kapiti	170	330	94.12
Dunedin	150	285	90.00
Hamilton	175	320	82.86
Hastings	165	300	81.82
Porirua	200	350	75.00
Rotorua	150	260	73.33
Palmerston North	170	290	70.59
Wanganui	137	220	60.58

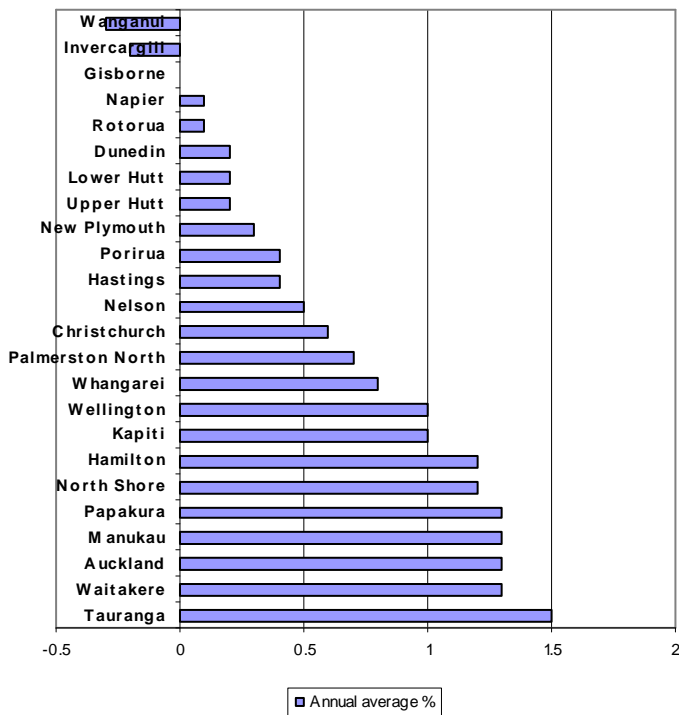
#### A Buy and Hold Strategy

Genuine property investors (as apposed to property speculators) typically adopt a buy and hold strategy. This strategy means cash flow from rental income dominates long term returns since unrealised capital gain can only be factored into total returns at the time of sale. Thus an investor considering the table to the left might ask why some localities have shown better rental growth than others. The simple answer is that it must be related to supply and demand. The demand side of the equation is likely to be partly driven by demographic considerations as shown on the chart below. Here the percentage growth in rents 1996-2006 is mapped against the percentage growth in population over the same period. There is a reasonably strong correlation between these two variables in the upper north island but a poor result in the south island cities and lower north island. Clearly other factors are at play. For example due to physical constraints much of the growth in the Nelson area was in adjacent Richmond. A similar situation existed in Wellington and benefited rents in the nearby cities in the Hutt valley. During the period Dunedin's economic base was dominated by the University and there was growth in student numbers which put pressure on rents. Of course students are not generally in a position to buy houses.



## Future Growth Projections

The chart below shows the annual average percentage (2006-2031) projected growth in population for the main urban areas. The data was retrieved from the Statistics New Zealand website. In so much that future growth in rents is correlated to projected increases in population then the message for investors adopting a buy and hold strategy is the Auckland and Bay of Plenty regions appear to offer better prospects than some of the alternatives further south. If the future growth in house prices is also related to positive future population projections then it seems likely added weight can be given to the theory that the Auckland and Bay of Plenty regions will continue to attract investors.



## Rental Levels

The national level of rent remained at \$320 per week in August 2012. Over the last 12 months the national level of median rent increased by 6.6%. Annual rent increases were led by Wanganui (13.5%), Christchurch (10.0%) and Dunedin (9.6%). Over this same period rents in the upper north island remained behind the national rate of increase. A snapshot of rents itemised by the main urban local authorities is shown in the table in the right hand column. The strongest rental increases in rents over the months (May 2012 to August 2012) were in Dunedin (5.5%), Wanganui (5.0%) and Invercargill (4.7%).

The strong annual rental increases in Christchurch and Dunedin appear to be related to the slow rate of residential rebuilding in Christchurch resulting in on-going supply problems. Also significant numbers of Christchurch residents moved to Dunedin during the period. The boom in house prices in Auckland has not been reflected in similar increases in rents, perhaps partly because a significant number of Auckland folk have moved to Australia. Further Auckland landlords seem to be reporting higher than normal numbers of vacancies in the rental housing stock. The reason why Auckland house prices and rents appear to be out of sync may also relate to increased numbers of young families freeing up rental houses by making the switch from renting to owning.

Median Rents	Aug-11	May-12	Aug-12
Whangarei	270	280	280
North Shore	420	440	447
Waitakere	360	370	370
Auckland	385	420	400
Manukau	370	380	390
Papakura	340	350	350
Hamilton	295	300	300
Tauranga	320	335	325
Rotorua	250	260	240
Gisborne	260	255	250
Hastings	260	275	270
Napier	290	300	295
New Plymouth	280	290	290
Wanganui	185	200	210
Palmerston North	260	270	250
Kapiti	300	330	310
Porirua	335	320	320
Upper Hutt	310	280	280
Lower Hutt	300	315	320
Wellington	375	400	380
Nelson	295	320	300
Christchurch	300	330	330
Dunedin	260	270	285
Invercargill	210	210	220
All NZ	300	320	320

### 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.

### 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 available on the internet are:

- 1 The Home Affordability Report (Quarterly)
- 2 NZ Residential Rental Market Report (Quarterly)

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