

THE
RESIDENTIAL INVESTMENT PROPERTY
RENTAL YIELD INDICATOR

QUARTERLY REPORT
Q2 2016



Rental yields continue falling throughout the country as investors chase capital gains

Rental yields on residential investment properties continue to be forced down, as rising property prices outpace rises in rents, according to latest Rental Yield Indicator report.

Since interest.co.nz first began producing the report two years ago, indicative gross rental yields in the country's biggest rental market, Auckland, have declined around 25% and are also falling steadily in most other parts of the country.

The report tracks the gross rental yield investors would receive if they purchased a property at the lower quartile selling price in 56 locations around the country where there is a high level of rental activity, and rented those properties out at the median rent for three bedroom houses in those same areas.

This provides a standardised measure of the relative attractiveness of residential investment properties in different parts of the country and how that has changed over time.

The latest report which covers based on property sales and new tenancy agreements that were concluded in each area in the six months to June, shows steadily diminishing returns in most parts of the country.

As the accompanying tables show, the indicative gross rental yield at Beachhaven/Birkdale on Auckland's North Shore, which has traditionally been a popular spot for both tenants and investors, has fallen from 4.9% two years ago to 3.7% in the latest report, a decline of 24.5%.

An even more dramatic fall has occurred for Henderson in

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THE INDICATIVE GROSS RENTAL YIELD AT BEACHHAVEN/BIRKDALE ON AUCKLAND'S NORTH SHORE, WHICH HAS TRADITIONALLY BEEN A POPULAR SPOT FOR BOTH TENANTS AND INVESTORS, HAS FALLEN FROM 4.9% TWO YEARS AGO TO 3.7% IN THE LATEST REPORT, A DECLINE OF 24.5%.

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Auckland's western suburbs, where the indicative yield has fallen from 5.3% two years ago to 3.8% in the latest report, a 28.3% drop.

The lowest Auckland yield in the areas monitored by the report remains Highland Park in the eastern suburbs, where it is now just 3.3%, down from 4.6% two years ago.

The areas with the highest indicative yields in Auckland remain Papakura and Franklin

on Auckland's southern flank, where they are 4.7% and 4.5% respectively, down from 6.0% and 5.8% respectively two years ago.

However the decline in yields is no longer mainly an Auckland phenomenon.

While the growing housing shortage may be largely an Auckland issue, the sharp increase in prices and falling yields that have occurred in Auckland has seen many investors head to the regions in search of cheaper properties that provide higher yields.

But that has been pushing up prices faster than rents in the regions, which means indicative yields outside of Auckland are now also being squeezed.

In Hamilton the indicative yields in the areas monitored by the report have fallen from 5.5%-6.9% two years ago to 4.7%-5.4% in the latest report.

In Tauranga they have dropped from 5.2%-5.7% two years ago to 3.7%-4.8% in the latest report.

Similar trends are evident in most of the locations throughout the country monitored by the report and not just the major centres.

The indicative yields are also well down in smaller towns such as Cambridge, and Ashburton.



The highest indicative yield in the report is in Whanganui where it is 10.3%, and the only one of the 56 locations monitored by the report where the yield is above 10%.

But even in Whanganui it has fallen from 14.9% a year ago, when Whanganui was first included in the report, which means the yield in the city has declined by a whopping 31% in 12 months.

That could be indicative of a high level of investor activity in the city over the last year, most likely attracted by its highly affordable prices and the relatively good returns they provide.

Invercargill is another city that appears to be gaining in popularity with investors, with its indicative yields dropping from 9.0% to 8.4% in the last two years.

However even at 8.4% an investment property in Invercargill

will be providing more than double the rental income return of many properties in Auckland.

The low indicative yields evident in most parts of the country support the view that investors are placing more importance on capital gains than rental income when making purchase decisions.

Investors who borrow heavily to purchase properties with low yields could find themselves in financial difficulties if interest rates rise or if there is a market downturn that negatively affects their rental income.

That would have been one of the factors the Reserve Bank considered when it announced it was considering restricting mortgage lending to residential property investors to 60% of a property's value.

We will have to wait and see if

such a move has any effect on prices, but if it does, those investors with enough equity to purchase properties at the new, lower mortgage limits, could be looking at modest rises in yields.

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But time will tell.

The following table plots the indicative rental yields in all 56 locations monitored by interest.co.nz and how they have changed over the last two years.

BY GREG NINNESS
 Property Editor

 **Residential Investment Property Rental Yield Indicator** interest.co.nz

Town/region	Yield % Jun 16	Yield % Mar 16	Yield % Dec 15	Yield % Sep 15	Yield % Jun 15	Yield % Mar 15	Yield % Dec 14	Yield % Sep 14	Yield % Jun 14
Whangarei: Kamo/ Tikipunga/ Kensington	6.1	6	5.6	7.1	6.5	6.9	7.6	6.4	5.9
Rodney: Orewa/ Whangaparaoa	4.1	4.1	4.1	4.3	4.5	4.5	4.6	4.8	4.2
North Shore: Beachhaven/ Birkdale	3.7	3.9	3.8	3.9	4	4.3	4.3	4.6	4.9
Torbay	3.6	3.8	3.6	3.8	4	4.5	4.6	4.5	4.5
Waitakere: Glen Eden	3.9	4	4	4.1	4.3	4.6	4.9	5.1	5
Massey/Royal Heights	4.1	4.1	4	4.1	4.4	4.6	4.9	5.1	5
Henderson	3.8	4.1	4.1	4.1	4.4	4.7	4.9	5	5.3
Central Auckland:									



Town/region	Gross Rental Yield %								
	Yield % Jun 16	Yield % Mar 16	Yield % Dec 15	Yield % Sep 15	Yield % Jun 15	Yield % Mar 15	Yield % Dec 14	Yield % Sep 14	Yield % Jun 14
Avondale	3.6	3.7	3.7	3.9	4.1	4.2	4.4	4.5	n.a
Manukau:									
Highland Park	3.3	3.3	3.6	3.6	3.8	3.8	4.1	4.3	4.6
Papakura/Drury/ Karaka	4.7	4.8	4.8	4.9	5.5	5.6	5.9	6	6
Franklin - Pukekohe/Tuakau	4.5	4.9	5	5	5.3	5.5	5.6	5.6	5.8
Hamilton:									
Deanwell/Melville/ Fitzroy	5.4	5.3	5.5	6.2	6.8	6.9	6.9	6.9	6.9
Fairfield/Fairview Downs	5.1	5.4	5.7	6	6.8	6.7	6.2	7	6.9
Te Kowhai/ St Andrews/ Queenswood	4.7	4.7	4.9	5.3	5.4	5.4	5.6	5.8	5.5
Cambridge/ Leamington	4.8	5.2	5.3	5.2	5.5	5.5	5.6	5.9	5.9
Te Awamutu	5.2	5.7	6.2	6.3	6.5	6.2	6.3	6.4	6
Tauranga:									
Tauranga Central/ Greerton	3.7	5.2	5.2	5.6	6	6.1	5.9	5.9	n.a.
Bethlehem/ Otumoetai	4.2	4.6	4.8	4.8	4.5	4.8	5.3	5.4	5.2
Mt Maunganui	4.4	4.8	4.6	4.7	5.4	5.7	5.6	5.2	5.2
Pyes Pa/Welcome Bay	4.8	5.4	5.5	5.3	5.9	5.7	5.7	5.8	5.7
Kaimai/Te Puke	5.6	5.8	5.9	6.2	6.4	6.2	6.2	5.7	5.6
Whakatane	6.6	6.4	7.1	7.3	6.7	6.3	6.7	6.9	n.a.
Roturua:									
Holdens Bay/ Owhata/Ngapuna	9.4	8.7	8.3	8.7	n.a.	n.a.	n.a.	n.a.	n.a.
Kuirau/Hillcrest/ Glenholm	6.4	5.9	6.3	6.6	n.a.	n.a.	n.a.	n.a.	n.a.
Ngongataha/ Pleasant Heights/ Koutu	7.9	7.7	8	8.2	n.a.	n.a.	n.a.	n.a.	n.a.
Hastings: Flaxmere	9.3	10.9	11.5	11	12.1	12.2	11.7	11.8	12
Napier: Taradale	5.5	5.4	5.6	5.5	5.3	6.2	6.3	6.1	6.1



Town/region	Gross Rental Yield %								
	Yield % Jun 16	Yield % Mar 16	Yield % Dec 15	Yield % Sep 15	Yield % Jun 15	Yield % Mar 15	Yield % Dec 14	Yield % Sep 14	Yield % Jun 14
Taranaki:									
New Plymouth Central/Moturoa	5.4	5.8	5.4	5.5	n.a.	n.a.	n.a.	n.a.	n.a.
Waitara/Inglewood	7.7	8.8	8.9	8	n.a.	n.a.	n.a.	n.a.	n.a.
Whanganui	10.3	9.6	10	14.9	n.a.	n.a.	n.a.	n.a.	n.a.
Palmerston North:									
Kelvin Grove/ Roslyn	7.3	7.4	7.2	7.2	n.a.	n.a.	n.a.	n.a.	n.a.
Palmerston North Central	6.3	5.6	5.5	6.2	n.a.	n.a.	n.a.	n.a.	n.a.
Takaro/Cloverlea/ Milson	6.8	7.2	7.1	7.3	n.a.	n.a.	n.a.	n.a.	n.a.
Kapiti Coast:									
Paraparaumu/ Raumati	5.7	5.9	6	6.1	6.2	6.1	6.1	5.9	n.a.
Waikanae/Otaki	5.8	5.9	6.5	6.8	6.6	6.7	5.5	5.4	6.1
Upper Hutt:									
Heretaunga/ Silverstream	5.6	5.8	5.8	6.1	n.a.	n.a.	n.a.	n.a.	n.a.
Totara Park/ Maoribank/Te Marua	6.2	6.3	6.2	6.8	n.a.	n.a.	n.a.	n.a.	n.a.
Lower Hutt:									
Epuni/Avalon	5.5	5.8	5.2	5.1	n.a.	n.a.	n.a.	n.a.	n.a.
Taita/Naenae	6.5	6.8	6.9	7.1	n.a.	n.a.	n.a.	n.a.	n.a.
Wainuiomata	7.2	7.7	7.7	7.7	n.a.	n.a.	n.a.	n.a.	n.a.
Wellington:									
Johnsonville/ Newlands	5.2	5.5	5.4	5.6	5.8	5.6	5.5	6.2	5.9
Vogeltown/ Berhampore/ Newtown	4.9	5.4	5.2	5.5	5.1	5.5	5.2	5.6	5.8
Tasman:									
Motueka	5.3	5.2	5.4	5.3	5.3	5.5	5.6	5.5	5.2
Richmond/ Wakefield/ Brightwater	5.3	5.3	5.3	5.5	5.6	5.6	5.8	5.9	6



Town/region	Gross Rental Yield %								
	Yield % Jun 16	Yield % Mar 16	Yield % Dec 15	Yield % Sep 15	Yield % Jun 15	Yield % Mar 15	Yield % Dec 14	Yield % Sep 14	Yield % Jun 14
Nelson: Stoke/ Nayland/Tahunanui	5.3	5.5	5.7	5.8	5.9	5.7	5.7	6	6
Blenheim	6.5	7	7	6.4	6.5	6.5	6.6	6.5	6.1
Christchurch:									
Hornby/Islington/ Hei Hei	6.1	6	6	6.2	6.2	6.3	6.5	6.3	6.4
Riccarton	5	5.7	5	4.9	5.9	5.2	4.9	5.1	5.7
Woolston/Opawa	7.4	6.3	6.4	6.6	6.8	7.3	7.2	8	7.9
Ashburton	6.1	6.2	7	6.9	7	6.8	6.7	7.2	6.8
Timaru	6.4	6.5	6.4	6.2	6.6	6.8	6.7	6.3	n.a.
Queenstown/ Frankton/ Arrowtown	4.3	4.6	5.2	5	4.8	4.9	4.7	5.3	5.4
Dunedin:									
Kenmure/ Mornington	6.7	7.9	7.1	6.6	n.a.	n.a.	n.a.	n.a.	n.a.
Mosgiel	5.7	6.4	6.4	6.1	n.a.	n.a.	n.a.	n.a.	n.a.
South Dunedin/St Kilda	7.4	7.2	8	8.2	n.a.	n.a.	n.a.	n.a.	n.a.
Invercargill	8.4	8.7	9.1	9	6.7	9	9.2	9.5	n.a.

*Yield is a property's annual rent repressed as a percentage of it's purchase price. The yield figures in this table are gross and are calculated from the REINZ's lower quartile selling price for each area during the previous 6 months, and the median rent for three bedroom houses calculated from new tenancy bonds received by the Ministry of Business Innovation and Employment for the same areas/period.

The Rental Yield Indicator is produced by interest.co.nz with assistance from the REINZ. For further information about this report please email Greg Ninness at greg.ninness@interest.co.nz.

