

Rental prices likely to rise

Auckland Property Investors Association President told members at their latest Keynote meeting that rents are likely to rise and they should keep an eye on their rental prices.

King stated that the three main reasons for upwards pressure on rental prices was an increase in costs, a reduction in returns and higher demand from tenants.

Meeting attendees were shown that rents in most of Auckland's four cities had increased over the last four years by around \$60 a week. The exception was Auckland which only increased by \$40 and had stagnant growth over the last two years. The apartment market is likely to be affecting the area.

While rents have slowly increased by 20% to 25% over the past four years, this has not keep pace with either house price growth or increasing costs.

King asked the audience if anyone had experienced lower costs over the past two years and received laughter in reply. The major costs in providing rental accommodation include interest rates, Council rates, maintenance and insurance. All these costs had increased at a faster rate than general inflation meaning cashflow would have gone backwards for many investors, even if they had increased rents.

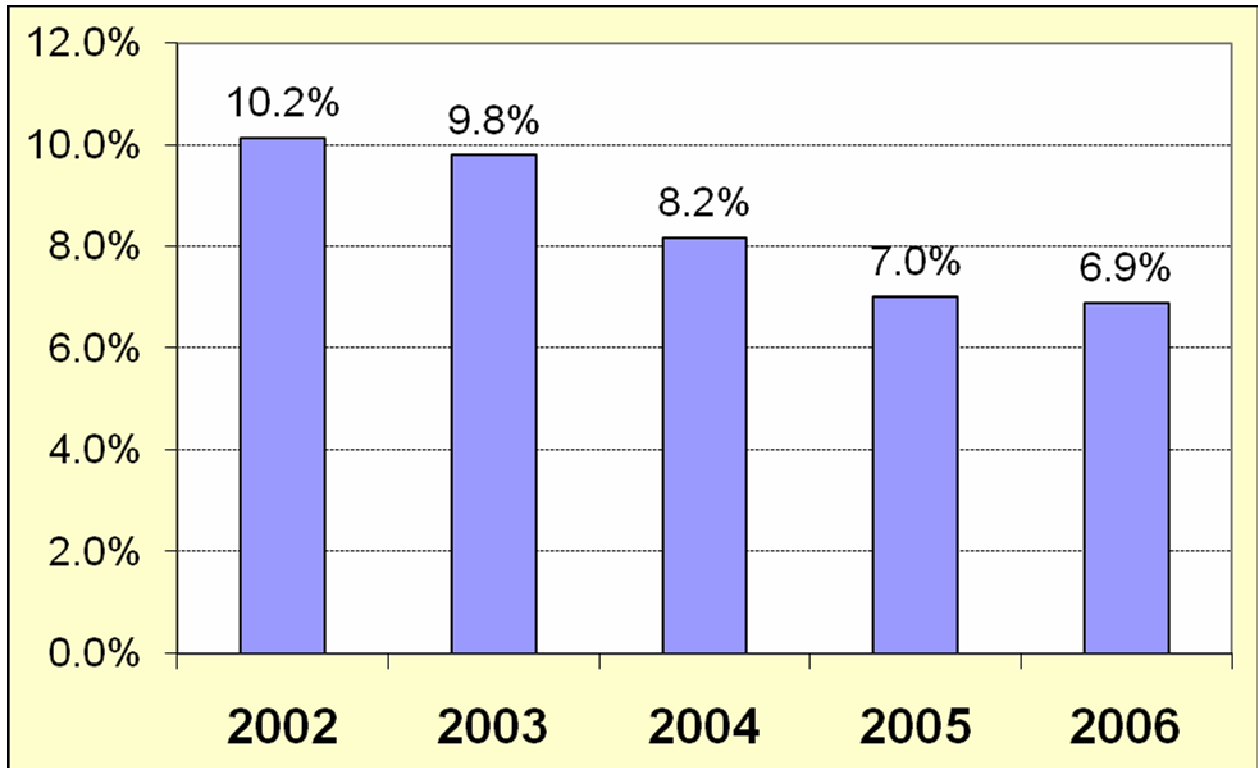
These costs affect all rental accommodation providers, so you would expect that all of them would be looking to increase rental prices to maintain returns.

The increasing cost of housing has also meant that the cost of supplying rental accommodation has increased dramatically. Despite rental price increases, the increased cost of housing has seen a continued reduction of investors' returns from property over the past four years.

The graph below shows how national rental returns have fallen from 10.2% to 6.9% over the past four years, representing a 32% reduction.

While experienced investors have strategies to help overcome this fall in rental returns, the result is likely to see investors looking to increase their investment returns through increasing their rents.

The fall in returns is also an effective argument against those who blame property investors for rising house prices. It is generally home owners who push up house prices due to emotional attachment. Experienced property investors are price followers as they generally try to minimise the price they pay for property rather than outbid home buyers.



Source: Andrew King Consultancy. Uses Lower Quartile house prices from QV and median house rental prices from Tenancy Services

However rental accommodation providers are generally price takers rather than price setters. The exception would be increases in the general cost of providing rental accommodation which would affect all investors. Demand for rental property is the key to price increases and it would appear that demand is increasing.

King believes that this is due to a reduction in aspiring first home buyers actually purchasing their first home. Part of that decision is driven by affordability issues; however a large part of it is driven by the gap between the cost of renting and the cost of owning a home.

King quoted a recently released book "Buying a home isn't everything" which claimed that the annual cost of renting a \$300,000 home was \$6,000 less than owning it, even with a \$60,000 deposit. This increases to \$9,000 with a lower \$30,000 deposit.

According to King, this demonstrates that rental prices are actually very good value in New Zealand and a prime reason for an increase in demand. However the gap between home ownership and renting has grown too large over the last few years and is likely to move back to more historical levels.

This scenario has been occurring in Australia over the past few years and is a likely indicator of what will happen in New Zealand, says King.

With cost pressures, falling returns and higher demand, it is highly likely that rental prices will continue to increase over the short and medium term. Because of this it is important that Rental Accommodation providers examine their rental prices and ensure they are charging a fair market rate.

King advises all landlords to do some market research so they know what prevailing rental rates are for their particular types of property and areas.

The Auckland Property Investors Association provides NZ Property Magazine free to members each month and this has updated rental prices for areas all over New Zealand. King also says it is a good idea to physically go out and view your competition. You might think your rental property is just average when it could be a palace compared to everything else.

The Association also holds Monthly keynote meetings where Rental Market group discussions are a regular feature. More detailed local rental information can be found by attending any of the five local area meetings APIA holds each month.

The key to maintaining your return is to know what your rental property rent is worth and keeping a close eye on market changes.