

Residential **views**

Auckland identified as the key location for residential real estate investment.

The top 59 New Zealand suburbs for residential property investment total returns are all located within Auckland, according to a recent Westpac Property Investor Report.



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Bayleys Real Estate Ltd,
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Bayleys \$25 Million Dollar Award (2013)

47,680, with Auckland's net gain being 13,123.

Normally a spike in population growth like this would see rentals rising. Over the last year however rentals have increased by only approximately three percent. Professional property investor David Whitburn said pressure would shortly begin to build on rent levels across the Auckland isthmus.

"A significant factor in the delayed impact of increased demand for housing on rents is reluctance by many landlords to increase rents. It seems that, particularly in instances where landlords believe that they have good tenants, they opt to hold rentals at rates which may have been in place for some time," said Mr Whitburn - past president of the Auckland Property Investors Association. "Despite the fact that

The bank's data shows that Auckland locations led the way predominantly due to the capital gains which the market has produced over the last two years.

Bayleys research analyst Ian Little said the revelation about total returns was likely to further fuel Auckland's already heated residential property market. "Rental inflation has failed to keep pace with capital gains in Auckland – particularly with net migration reaching record levels in recent months," Mr Little said.

In the year to October 2014 net migration topped

property investment should be viewed as a business, many landlords are happy to take a lower rental rather than enter into negotiations as they are concerned such negotiations may lead to the loss of a tenant. While there are clearly costs involved in employing a property manager, they are generally more heavily involved in the market, have an appreciation of current market rental levels and understand the rent review process. These attributes along with the fact that they form separation between landlord and tenant means that rents are normally kept more in line with market levels."

Mr Whitburn said most Auckland property investors have taken a more relaxed view towards rental levels in light of the strong capital gains which have been achieved over the past three years.

"Auckland has clearly led the national market in terms of rental levels, a shortage of houses, sharply increasing population, and a strongly performing economy. Combined, these factors point towards further gains in the short term future," he said.

"However, the importance of income flow should not be forgotten. While the long term trend is for residential values to rise, there are also cyclical price corrections – such as those seen in 2008/2009 post the Global Financial Crisis. When values are falling, having a strong cash flow is extremely important so loan repayments and outgoings such as insurance and maintenance can be maintained."

"..... investors will have to make their own personal choices about either punting on capital growth with probably lower yields, or opting for an investment property in a less salubrious

part of town – potentially even in a provincial city – where the rental returns are well above Auckland's yield average yet there will most likely be a sacrifice of capital growth," he said.

Mr Whitburn said that identifying a property's potential for redevelopment or renovation was important for generating above-market capital gains.

- Sourced from a recent special property report in the New Zealand Herald.





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Tara's Comment

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