

House prices have a much bigger impact on investment returns than changes in rents - Colliers study

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Rental returns on residential investment properties have been steadily declining for more than 20 years, while capital returns have generally been much higher but also more erratic, according to research by Colliers International.

Based on the REINZ's median selling prices and the average rent figures compiled by the Ministry of Business, Innovation and Employment's tenancy bond centre, both of which Colliers has tracked since 1993, net rental income returns* have dropped from 5.4% (pre-tax) in the third quarter of 1993 to 3.3% in the third quarter of this year, with the decline being slow and steady (refer tables below).

Over the same period, capital returns, (the annual improvement or decline in a property's capital value) have been far more volatile, dipping into negative territory twice since 1993, in 2008/2009 and again at the end of 2010 and the start of 2011.

The peak period for capital returns since 1993 was the first quarter of 2004, when they hit 20.5% on an annualised basis.

In the Auckland residential property market, net rental income returns have also declined steadily but at a faster pace, falling from 5.7% in 1993 to 2.6% in the third quarter of this year, which means they have more than halved over that period.

As with the national figures, capital returns in Auckland have been more volatile, starting off at 10.7% a year in 1993 and then going through several periods of substantial rises and falls to end up at an annualised 22.7% in the third quarter of this year (see table below).

Adding the income and capital returns together produces a total return figure.

Nationally this peaked at 24.8% per annum in the first quarter of 2004, when the income return was 4.3% and the capital return was 20.5%.

In Auckland, total returns peaked in the second quarter of 1996, when they hit a massive 31.1% pa, made up of a 5% income return and a 26.1% capital gain.

Their lowest point was in the year to September 2008, when they briefly fell into negative territory when income returns of 3.7% were more than wiped out by a capital decline of -5.3%, giving a total return of -1.7%.

The trends show that residential property investors have been prepared to accept ever diminishing rental returns for more than 20 years and that movements in prices can have a far bigger impact on the performance of property investments than movements in average rents.

*Pre-tax net rental income is based on 75% of a property's annual rent, to allow for outgoings such as rates, insurance and maintenance which residential landlords usually pay, but not mortgage payments.

Colliers International Residential Property Total Returns (Capital & Income) New Zealand							
September Quarter, 1993 - 2015 (Rolling annual %, pa)							
Date	Mean NZ Residential Rents	Annual NZ Rents (Gross)	Annual Rents (Net - 75% of gross)	NZ Median Sale Price	Income Returns	Capital Returns	Total Residential Returns
3Q1993	\$162	\$8,402	\$6,302	\$116,000	5.4%		
3Q1994	\$171	\$8,912	\$6,684	\$130,000	5.1%	12.1%	17.2%
3Q1995	\$186	\$9,693	\$7,269	\$140,000	5.2%	7.7%	12.9%
3Q1996	\$201	\$10,429	\$7,822	\$150,000	5.2%	7.1%	12.4%
3Q1997	\$207	\$10,782	\$8,086	\$164,000	4.9%	9.3%	14.3%
3Q1998	\$207	\$10,765	\$8,073	\$165,000	4.9%	0.6%	5.5%
3Q1999	\$208	\$10,816	\$8,112	\$169,000	4.8%	2.4%	7.2%
3Q2000	\$209	\$10,861	\$8,146	\$170,000	4.8%	0.6%	5.4%
3Q2001	\$214	\$11,119	\$8,339	\$174,000	4.8%	2.4%	7.1%
3Q2002	\$230	\$11,961	\$8,970	\$185,000	4.8%	6.3%	11.2%
3Q2003	\$246	\$12,804	\$9,603	\$215,000	4.5%	16.2%	20.7%
3Q2004	\$260	\$13,506	\$10,130	\$249,250	4.1%	15.9%	20.0%
3Q2005	\$268	\$13,952	\$10,464	\$287,000	3.6%	15.1%	18.8%
3Q2006	\$280	\$14,542	\$10,907	\$312,000	3.5%	8.7%	12.2%
3Q2007	\$299	\$15,522	\$11,642	\$350,000	3.3%	12.2%	15.5%
3Q2008	\$315	\$16,360	\$12,270	\$332,000	3.7%	-5.1%	-1.4%
3Q2009	\$312	\$16,247	\$12,186	\$345,000	3.5%	3.9%	7.4%
3Q2010	\$323	\$16,774	\$12,580	\$350,000	3.6%	1.4%	5.0%
3Q2011	\$334	\$17,349	\$13,012	\$350,000	3.7%	0.0%	3.7%
3Q2012	\$345	\$17,957	\$13,467	\$368,000	3.7%	5.1%	8.8%
3Q2013	\$359	\$18,642	\$13,982	\$391,000	3.6%	6.3%	9.8%
3Q2014	\$373	\$19,391	\$14,543	\$420,000	3.5%	7.4%	10.9%
3Q2015	\$392	\$20,367	\$15,275	\$470,000	3.3%	11.9%	15.2%

Source: REINZ, MBIE, Massey University, Colliers International Research
 * Residential capital returns are calculated from median price changes. Net income has been calculated by applying a 25% discount to the gross return to allow for outgoings. Percentages may not be exact due to rounding.

Colliers International Residential Property Total Returns (Capital & Income)

Auckland

September Quarter, 1993 - 2015 (Rolling annual %, pa).



Date	Mean NZ Residential Rents	Annual NZ Rents (Gross)	Annual Rents (Net - 75% of gross)	NZ Median Sale Price	Income Returns	Capital Returns	Total Residential Returns
3Q1993	\$211	\$10,964	\$8,223	\$144,000	5.7%		
3Q1994	\$229	\$11,910	\$8,932	\$171,000	5.2%	18.8%	24.0%
3Q1995	\$264	\$13,728	\$10,296	\$185,000	5.6%	8.2%	13.8%
3Q1996	\$289	\$15,016	\$11,262	\$221,000	5.1%	19.5%	24.6%
3Q1997	\$293	\$15,219	\$11,414	\$235,000	4.9%	6.3%	11.2%
3Q1998	\$284	\$14,775	\$11,081	\$225,000	4.9%	-4.3%	0.7%
3Q1999	\$284	\$14,778	\$11,083	\$235,000	4.7%	4.4%	9.2%
3Q2000	\$287	\$14,898	\$11,174	\$235,000	4.8%	0.0%	4.8%
3Q2001	\$296	\$15,404	\$11,553	\$240,500	4.8%	2.3%	7.1%
3Q2002	\$338	\$17,599	\$13,199	\$265,000	5.0%	10.2%	15.2%
3Q2003	\$351	\$18,268	\$13,701	\$310,000	4.4%	17.0%	21.4%
3Q2004	\$351	\$18,229	\$13,671	\$339,000	4.0%	9.4%	13.4%
3Q2005	\$352	\$18,316	\$13,737	\$372,000	3.7%	9.7%	13.4%
3Q2006	\$356	\$18,511	\$13,883	\$395,000	3.5%	6.2%	9.7%
3Q2007	\$377	\$19,578	\$14,684	\$445,000	3.3%	12.7%	16.0%
3Q2008	\$397	\$20,660	\$15,495	\$421,250	3.7%	-5.3%	-1.7%
3Q2009	\$392	\$20,394	\$15,295	\$450,000	3.4%	6.8%	10.2%
3Q2010	\$411	\$21,383	\$16,037	\$449,000	3.6%	-0.2%	3.3%
3Q2011	\$434	\$22,572	\$16,929	\$462,187	3.7%	2.9%	6.6%
3Q2012	\$444	\$23,094	\$17,321	\$507,000	3.4%	9.7%	13.1%
3Q2013	\$458	\$23,807	\$17,855	\$565,000	3.2%	11.4%	14.6%
3Q2014	\$473	\$24,583	\$18,437	\$611,000	3.0%	8.1%	11.2%
3Q2015	\$506	\$26,333	\$19,750	\$750,000	2.6%	22.7%	25.4%

Source: REINZ, MBIE, Massey University, Colliers International Research

* Residential capital returns are calculated from median price changes. Net income has been calculated by applying a 25% discount to the gross return to allow for outgoings. Percentages may not be exact due to rounding.