

BY DIANA CLEMENT

A shore thing

Auckland's North Shore offers a fantastic lifestyle, but what does it offer investors? **Diana Clement** surfs the coastal city to find out

The North Shore. What a great place to live." That's the catchy answerphone message on Harcourts North Shore franchisee Martin Cooper's mobile phone.

With its access to sun, sea and city, there's no doubt the North Shore's a cracker place to live. But is it a great place to invest?

Yes and no is the short answer. The North Shore has been hit hard by the property downturn with only four of 18 areas coming in above median sales growth.

Gross yields are all (bar three) in the bottom half of the country's yields. The highest is still a measly 5% in the less than desirable Beach Haven/Birkdale end of the city.

Investor Pia Grassa, who owns properties in Milford, as well as south of the Auckland harbour bridge, questions why anyone would buy on the shore with such appalling yields. Her properties in Ponsonby, Freeman's Bay and Grey Lynn are easier to rent and have higher yields. The only reason she invests on the shore is that the properties are closer to home and easier to manage as a result.

Whilst rental yields on the North Shore are a bit on the pitiful side compared to Manukau in particular and also Waitakere and Central Auckland as a rule, the North Shore tends to attract a better class of tenant, says investor Jacqueline McDonald, which may result in fewer vacancies and other problems.

When she compares tenants attracted to her West Auckland rentals, which she no longer owns, and those for the North Shore properties, they are in a different league.

"I had one (tenant) out west who had a nervous breakdown and wrecked the carpet and another who abandoned a cat."

Yet more tenants had a dog in the house – even though they weren't allowed – and left excrement on the carpet. She hasn't had any such problems on the North Shore.

So where do tenants favour? As a rule of thumb, says Jill Reid, property manager at Rentex, property rents increase as properties get closer to the East Coast Bays and close to Auckland. What that would mean is that a coastal Takapuna property would command more rent than an equivalent Torbay one further north, and coastal Torbay more desirable than inland Torbay or Oteha Valley.

In the current market the easiest to rent properties are three-bedrooms in the \$400 to \$450 range, says Reid. Increasingly tenants are expecting more than one bathroom.

Another phenomena noted by investor and former property manager Pat Baker is that tenants have a preference for newer homes in Albany, The Palms, and other new developments, which has made older Glenfield homes harder to tenant.

When it comes to desirability for tenants, there is a definite

The North Shore tends to attract a better class of tenant

– JACQUELINE MCDONALD



North Shore

Auckland City

lean towards anything east of East Coast Bays Road – that is on the eastern seaward side of the hills. Properties in that area – especially those in the Rangitoto College and Westlake Boys’ and Girls’ high school zones – tenant much more quickly and command premium rent, says Reid.

McDonald certainly believes in the Westlake factor. She owns a Glenfield property that falls into a corner of the Westlake school zone and has never struggled to get a tenant. Whenever the minor dwelling on the back of the property is available for rent she also gets enquiries from parents of children looking to secure places at the Westlake schools, even though the dwelling really isn’t appropriate for a family.

Large-scale residential and commercial development has virtually ground to a halt on the North Shore. Having said that, says Terry Hoskins, Enterprise North Shore’s chief executive, there are 15 projects in the pipeline that are “ready to go”.

But these developments are parked until anchor tenants are found for the commercial premises and developers can be assured they can sell residential properties.

The wildcard on the North Shore lies in what’s happening at the rapidly developing northern end of the city – the Albany basin, which is often referred to as “North Harbour”.

This area could prove good for investors. It has two brand new schools, including Albany Junior and Senior high schools, as well as the North Shore’s top private schools of Pinehurst and Kristin.

These make Albany desirable to live in – as do employment

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opportunities from an ever increasing business base. Massey University’s huge Albany campus is right in the middle of the basin providing opportunities for investment in student housing.

As the bare land is developed, employment opportunities on the North Shore will increase. Enterprise North Shore estimates that 117,000 employees are expected to be working on the shore by 2031, which is almost one third higher than now.

At the same time, improved motorway connections currently under construction will fully link the North Shore with West Auckland from Albany through to Westgate, making it easier for North Shore residents to work in the west.

Whilst this all may sound good for the future of Albany, the numbers aren’t pretty.

When it comes to gross yield the relatively new suburbs of Albany and North Harbour/Pine Hill came in at 3.40% and 3.30% respectively in June – at the very bottom of all 18 areas listed by QV for the North Shore.

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REGIONAL REVIEW NORTH SHORE

Running the numbers

BY JONNO INGERSON
RESEARCH DIRECTOR, QV.CO.NZ



Jonno Ingerson

The data

Rental data is sourced from the Department of Building and Housing (DBH) based on bonds lodged. We use quarterly and 12 monthly data.

This rental data is supplied by geographic areas based on groups of statistical area units used by Statistics NZ for the census. These areas do not always match well with other definitions of areas such as suburbs.

The four areas used for this North Shore regional review are Albany, Beach Haven/Birkdale, Chatswood/Birkenhead/Northcote Point, and Glendhu/Glenfield. The rental data is then matched to housing information from our database to determine house prices and therefore yield.

The yield is calculated as the annualized rent divided by the sale price (as a percentage). This data, and more, is available through subscription to our Property Investor website QVInsider.co.nz

Market composition

The mix of rented properties varies by area. In all four areas, houses made up the greatest proportion of properties rented.

Only Albany had a significant proportion of apartments. Flats form a solid proportion of the market in the other three areas, with around a third of the rented properties in Glendhu/Glenfield being flats.

The size of houses rented also varied. In Albany three and four-bedroom houses were each over 40% of the total number rented, another 13% were five-bedroom houses, but none were two-bedroom.

In contrast, the other three areas were dominated by three-bedroom houses, a small proportion of two-bedroom houses, and very few five-bedroom.

Three-bedroom houses

Given that three-bedroom houses dominate the rental market, these are considered in more detail.

In terms of median sales growth Albany sat at -1.30% in June compared to a national median of -1.50% and was in fourth place on the North Shore.

At the bottom of the North Shore's investment heap is the Beach Haven/Birkdale suburbs to the west. Although they have harbour frontage and are geographically closer to Auckland City than the northern parts of the North Shore, these areas are often considered the worst of the worst by investors.

This is in part because of their inaccessibility – being the furthest from the motorway of any North Shore properties – and in part for these suburbs' reputations for crime and bad tenants.

Reid says: "We have greater difficulty letting to caring tenants out Beach Haven way than in other areas." Having said that, there are areas of Glenfield and other suburbs that are also "trou-

blesome".

In terms of residential capital growth Ross Forsyth of Darroch Valuations sees opportunities in Beach Haven, Albany and inland Torbay.

In the case of Beach Haven, news that the Auckland Regional Council is to provide the money to build new ferry facilities, should lead to a boost in prices, says Forsyth.

In Albany, capital values have been hit much harder than other areas, but could bounce back well thanks to the proximity to the private schools and expanded commercial development in the future.

Martin Cooper, Harcourts franchisee who manages seven branches of the real estate agency spanning virtually all of the North Shore, says his pick for investment property purchase is Albany.

Cooper puts that down to:

**In the current market the easiest to
rent properties are three-bedrooms in
the \$400 to \$450 range**

– JILL REID

3 bedroom houses	Median Rent (\$)	Rent Growth	Median Sales Price	Median Sales Growth	Gross Yield	Gross Yield Growth
Albany	427	-5.10%	\$392,500	-19.10%	5.70%	18.80%
Beach Haven/Birkdale	370	-2.60%	\$371,500	-2.50%	5.20%	0.00%
Chatswood/Birkenhead/Northcote Pt	450	2.30%	\$523,500	-9.00%	4.50%	12.50%
Glendhu/Glenfield	380	0.00%	\$389,000	-1.60%	5.10%	2.00%

North Shore rents

Rents rose in all four areas throughout 2007 to a peak in 2008, but have declined in recent quarters. When comparing the most recent 12 months to the 12 months prior, rents are now less in Albany and Beach Haven/Birkenhead, static in Glendhu/Glenfield, and have risen in Chatswood/Birkenhead/Northcote Pt.

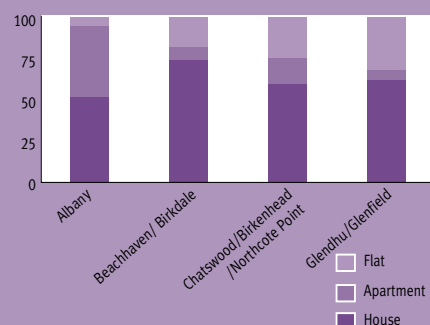
The median sales price has declined in all four areas over the last year. The annual decline in value is the least in Glendhu/Glenfield at -1.60%, Beach Haven/Birkdale has also declined relatively little at -2.50%, while at -9% Chatswood/Birkenhead/Northcote Pt is

nearer the national average.

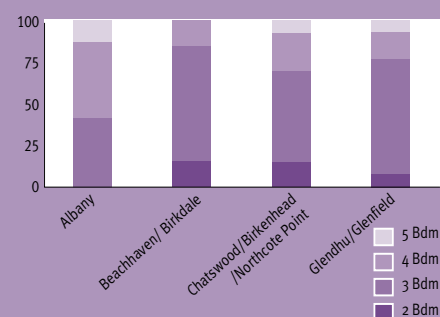
The decline in sales price appears greatest in Albany, but this is based on a low number of sales, and reflects lower value properties selling rather than a genuine drop in values of this magnitude.

As a result of these rent and price changes, gross yields have improved in Chatswood/Birkenhead/Northcote Pt but are still only 4.50%. Yield is stable at just over 5% in Beach Haven/Birkenhead and Glendhu/Glenfield. The apparent decline in sales prices in Albany makes gross yield appear to have improved dramatically over the past year, but yield is still only at 5.70%.

Rented property type by area



Rented house type by area



Source: qv.co.nz

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- high demand for rental properties
- a big influx of new immigrants to the area in recent years
- good employment opportunities in the Albany commercial area negating the need to commute
- the new Westfield shopping mall.

Albany, says Cooper, was the slowest selling suburb on the North Shore during 2007 and 2008. As a result there is a significantly larger number of motivated sellers in Albany than other suburbs of the North Shore.

On the rental front in Albany, Harcourts says it can't get enough four-bedroom, two-bathroom family homes to rent currently.

The wildcard in Albany is that there are still swathes of development land lying fallow and renewed development could affect both the sales and rental markets.

But Forsyth isn't expecting to see any large-scale residential development for at least three years, which will mean that there continues to be a shortage of stock.



"We have seen some pretty spectacular drops in prices on development land"

—JOHN DARROCH

Despite what the QV figures show for Albany as a whole, there are residential properties for sale with 6.50% to 7% yields.

When it comes to commercial, says John Darroch of Darroch Valuations, good properties in the \$2 million to \$3 million range that have good tenants such as NZ Post are well sought-after by investors and yields remain in the 7% to 8% category.

"They are basically recession-proof."

Other properties with more insecure tenants or that are looking a bit tired have gone from an 8% to 9% yield to buy, to around 9% to 10%, says Darroch.

Where the bargains are to be had in

North Shore commercial is development land.

"We have seen some pretty spectacular drops in prices on development land."

For example, Perron Developments Auckland recently sold development land on the seaward side of Hurstmere Road, Takapuna and took a significant drop in price, says Darroch. A similar story has been seen with developers in Orewa.

Another area of the market that is hurting – or a bargain depending on your perspective – is small office product.

"Small office product has been overbuilt, mainly by one developer and there is a lot of vacancy." ▲

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