

THE POPULATION IS GROWING IN DUNEDIN DUE TO EMPTY-NESTERS AND FAMILIES MOVING FROM AUCKLAND FOR A MORE AFFORDABLE LIFESTYLE.



DUNEDIN EXPERIENCING GROWTH

The affordable investment market in Dunedin is in a growth phase, writes **Jenny Keown**.

AFTER SUFFERING AN ECONOMIC DECLINE over the last decade, Dunedin is clawing its way out of the doldrums with a buoyant property market, building boom and workforce expansion.

In July last year, investors from Auckland and Central Otago turned their eyes to Dunedin when the 40% loan-to-value restrictions were introduced.

Harcourts Dunedin manager Richard Stringer says Otago stands out as it is such an affordable base, and there is real growth in Dunedin.

These thoughts are echoed by QV national spokesperson Andrea Rush who says the latest QV house price index shows value growth in Auckland, Hamilton and Christchurch continue to ease, while values are rising in Tauranga, Wellington and Dunedin.

Dunedin's median price rose to \$325,000 in January this year, up 8% from the same time last year, according to the Real Estate Institute of New Zealand. In Otago, the number of days to sell improved by four days from January 2016.

WHERE TO BUY

Dunedin doesn't have any clearly defined residential investment areas says Stringer. Every area has its pros and cons, for example South Dunedin provides an affordable entry into the market, but isn't such a desirable place to live, says Stringer.

Dunedin's highest capital gains continue to be strongest in the student enclave of North Dunedin (4.4%) and Roslyn for apartments and flats (4.1%). Glenleith has the highest gross yield for housing at 8.4% with Dunedin central topping gross yield for apartments and flats at 7.5%, according to the *Westpac Property Investor Report 2016*.

Stringer says empty-nesters and families are relocating from Auckland to live in Dunedin as central Otago appeals for its affordable lifestyle, and good schooling.

Mana Property Management director Kyle Elmer says tenants tend to be a mix of young professionals, who are often graduates of the University of Otago, families and some students (although they don't make up a large part of his tenancy portfolio).

Most tenancy agreements tend to be one-year fixed terms, and the young professionals will often renew after one year. On the question of whether the transience of the rental market is a challenge for investors, Elmer doesn't think so, as long as investors get their numbers right.

"Investors get caught up thinking they can rent higher than what the market is paying," he says.

He's found government rental statistics aren't often accurate and a number of key rental suburbs don't seem to be included.

Overall, he says the market is much more buoyant in property sales and rents.

LOCAL DEALS

Dunedin-based property investor Kathryn Seque won the New Zealand Property Investor Federation's Landlord of the Year award in 2016. She and her father restore old houses into more appealing, warmer and drier homes for tenants.

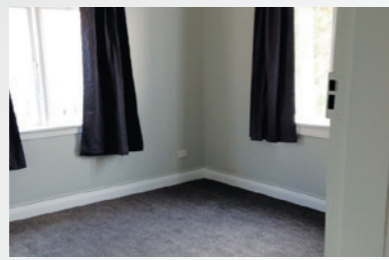
She manages her father's large portfolio of 45 student flats and owns four houses that she rents to young families.

Recently she bought a run-down house for \$150,000 in Cranley Street, with an unusable kitchen, and mould-covered bathroom with no

19 Cranley Street **BEFORE**



19 Cranley Street **AFTER**



floor coverings. She spent \$30,000 on renovating the place over six months which involved getting everything replaced, ripping out old scrim and fully insulating it. The house is now valued at between \$285,000 and \$300,000.

Another local investor, Mike Harbott, owns seven large student flats in North Dunedin.

He bought his eight-bedroom house on Duke Street for \$230,000, invested \$150,000 in to renovations and it is now currently valued at \$650,000. Rents are \$120 a room per week, and he gets a yield of 8%.

The yields on his other properties vary and the further the properties are away from campus the lower the yield, he says.

THE LIFEBLOOD OF DUNEDIN

The students who attend the University of Otago are still very much the life of the city, accounting for just over 20% of the population at the 2006 Census.

Elmer thinks the students occupy about half of the rental stock in Dunedin.

The perception of Dunedin as the place where students (affectionately known as 'scarfies') live in damp, dark and squalid flats is changing though.

Seque says many students want and can afford better quality houses, particularly visiting students from Europe and Asia.

While she says the old, cold and damp

IF YOU DON'T HAVE ANYTHING RENTED BY MID-NOVEMBER THEN YOU'RE STUFFED

– KATHRYN SEQUE

houses still exist – landlords are wising up to the change in demand.

Every year, Seque pulls down at least one old 'dunger' and replaces it with a fully insulated, double-glazed flat, usually let to international students.

Their rents range from \$115 per week for a room in older flats to up to \$180 p/w for fully-furnished, brand new houses.

"Often you might find five students who will live in a three-bedroom flat to bring the rent down, and a lot of rents are subsidised by parents," she says.

At the end of semester one, there is the first rush of students looking for flats. Often houses can be rented six months in advance of students' return to university. There is another rush for properties between May and July, she says.

"If you don't have anything rented by mid-November then you're stuffed," she says.

Advertising for students has become more competitive. "All we used to do was advertise on the Otago University website, but now you've got to use social media and if you don't start advertising by June, you will have missed a lot of the market," she says.

She's had a pretty good run with the student tenants and she works hard to establish a good relationship with them from the outset.

"I have about two disputes a year, and I can generally predict which flat is going to be a problem. This year it is a flat of boys and I've been to see them five times in three weeks for not paying rent, partying and flat disputes," she says.

WEATHER WARNING

One risk to be aware of is Dunedin's propensity for floods, particularly low-lying South Dunedin which used to be a marshland.

On February 13 this year, a short but intense burst of rain and hail caused flooding in parts of the city and the Dunedin City Council responded to 14 houses.

"In some houses in South Dunedin, you can feel like you are in a wave, the foundations are so out of whack," says Seque.

Seque cautions investors to look before they buy, and make sure they know how to deal with flooding – employing a local property manager is a good idea, she says.

WHERE TO FROM HERE?

Enterprise Dunedin director John Christie says the city experienced a decline over the last decade with the closures of significant companies, but Dunedin is a resilient community.

"Things are good for us now," he says. Of course, the city wants growth, but not

What you need to know

- » The median house price is \$325,000
- » Yields range from around 4.1% to 7.5%
- » Dunedin's growth rate is 1.3% a year per capita and growing
- » 84% of Dunedin residents rate their quality of life as good
- » The city's population is 126,000 during term time when one fifth of the population is students
- » Enterprise Dunedin aims to make the city a digital hub
- » The University of Otago is the city's largest employer



STUDENTS ARE MUCH MORE DISCERNING ABOUT THE QUALITY OF THEIR RENTAL THAN IN THE PAST.

growth that puts pressure on the lifestyle enjoyed by Dunedin's residents.

"We top a number of quality of life measures and people here are very conscious about all this," he says. "You know, you wouldn't want to go from a seven minute commute to a 10 minute commute," he jokes.

Enterprise Dunedin, which is the economic development arm of the Dunedin City Council, recognises that the city faces

the risk of losing business and people to other cities. It is focused on developing the skills, incomes and job opportunities for its residents, according to its Economic Development Strategy 2013-2023.

Overall, Dunedin's economic performance has improved over the past 10 years, but is not improving at a fast enough rate to better the national average in the foreseeable future, says the strategy.

Turning this around will require growth

in population and labour utilisation, as well as productivity improvements across the city's economy

The strategy aims to create 10,000 jobs over ten years and an average of \$10,000 extra income for each person.

"As long as we grow availability of jobs, people will want to live here, and we are already seeing this with people shifting from Auckland," he says.

There is a building boom in the construction sector and tradies are in hot demand, he says.

In 2016, the council processed 2717 building consents – the highest number in the past six years.

Building applications include some high profile developments such as the University of Otago Dental School redevelopment, restoration work on the Dunedin Courthouse and Otago Polytechnic student accommodation.

When it comes to the housing market, Stringer thinks there will be continued pressure for the next six to seven months, a slow-down during the election and then a return in confidence.

Harbott believes there is scope for Dunedin to continue to grow for another 12 months, given properties have an entry price of \$200,000 and yields are strong. ■



CoreLogic

NICK GOODALL, SENIOR RESEARCH ANALYST

THE DATA

Rental data is sourced from the Ministry of Building Innovation and Employment (formerly the Department of Building and Housing) based on rental bonds lodged. This rental data is supplied to us grouped into geographic areas based on statistical area units used by Statistics NZ for the census and as a result do not always match well with common usage suburb names.

The rental data for each area is matched to house price information from our database to determine property prices and therefore yield. The yield is calculated as the annualised rental income divided by the median house value calculated using our E-Valuer.

MARKET COMPOSITION

The rental market in Dunedin, like the rest of the country, is dominated by houses. Half of the areas profiled here are exclusively houses, while only Central Dunedin has any rental apartments. University/Maori Hill, unsurprisingly due to the strong presence of students, is dominated by flats. Similarly North Dunedin/Woodhaugh and Central Dunedin also have a significant number of flats.

HOUSE SIZE, BY BEDROOM COUNT

When it comes to the size of the rental houses in Dunedin, three, and to a lesser extent four-bedroom houses dominate most of the areas. Mosgiel and Rural Dunedin have only three-bedroom rental houses.

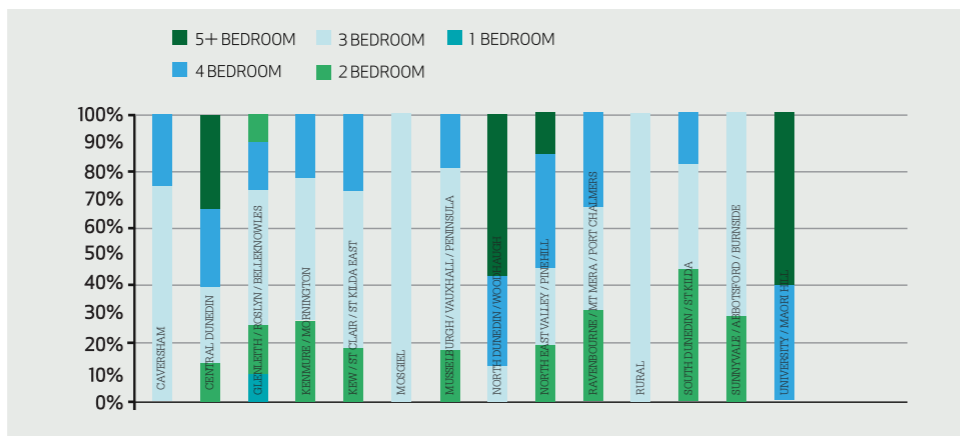
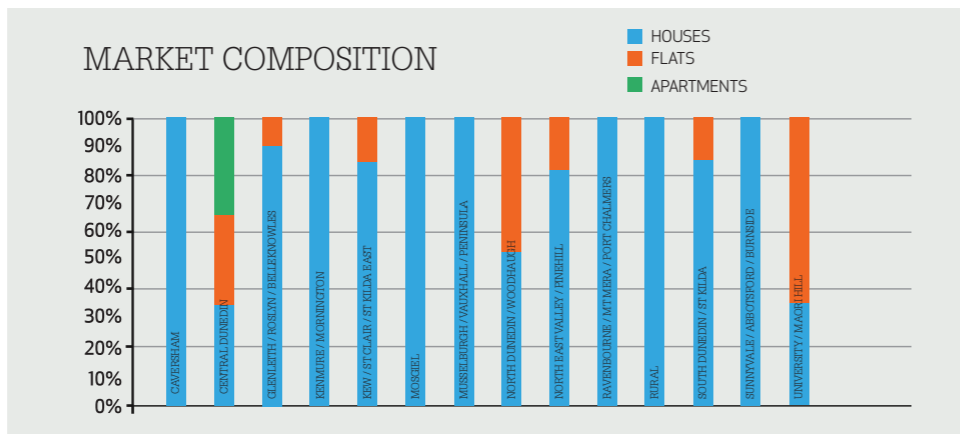
University/Maori Hill is the exception to this, with only four and five+ bedroom rental houses, while again neighbouring North Dunedin/Woodhaugh is similarly dominated by four and five+ bedroom houses.

Glenleith/Roslyn/Belleknowles is the only area with one-bedroom houses, but two-bedroom houses are more prevalent – existing in nine of the 14 areas – South Dunedin/St Kilda with 46% of the rental market this size.

RENT AND YIELD

By matching the average value to rents we can look at gross yield for one and two-bedroom apartments in each area. Median weekly rent for three-bedroom houses in the central city is very consistent – from \$315 in Rural Dunedin to \$397 in Central Dunedin.

Median value varies a little more, from \$247,400 in Caversham to \$390,950 in Mosgiel. This leads to a varying gross yield of 4.9% in Mosgiel to 6.8% in South



RENTAL YIELD				
SUBURB	MEDIAN WEEKLY RENT	MEDIAN VALUE	GROSS YIELD	ANNUAL RENT CHANGE
Musselburgh/Vauxhall/Peninsula	\$380	\$380,000	5.2%	9.5%
South Dunedin/St Kilda	\$340	\$258,200	6.8%	15.3%
Caversham	\$320	\$247,400	6.7%	6.7%
Kew/St Clair/St Kilda East	\$350	\$320,200	5.7%	2.9%
Ravenbourne/Mt Mera/Port Chalmers	\$350	\$323,650	5.6%	16.7%
North East Valley/Pinehill	\$320	\$291,050	5.7%	6.7%
North Dunedin/Woodhaugh	\$367	\$363,200	5.3%	5.8%
Central Dunedin	\$397	\$383,400	5.4%	20.3%
Glenleith/Roslyn/Belleknowles	\$350	\$342,300	5.3%	1.4%
Kenmure/Mornington	\$340	\$299,850	5.9%	6.3%
Sunnyvale/Abbotsford/Burnside	\$335	\$330,450	5.3%	2.4%
Mosgiel	\$365	\$390,950	4.9%	10.6%
Rural	\$315	\$293,600	5.6%	0.0%
There are no bonds held for three-bedroom houses in University/Maori Hill to generate any statistics.				
Median Rent: Weekly rent based on the bonds lodged for three-bedroom houses in the three months to January 2017				
Rent Growth: The percentage change in rent compared to 12 months prior Median value: The median value of houses in the area based on estimating the current market value of each property using our E-Valuer Gross Yield: Annualised median rent as a percentage of median house value.				

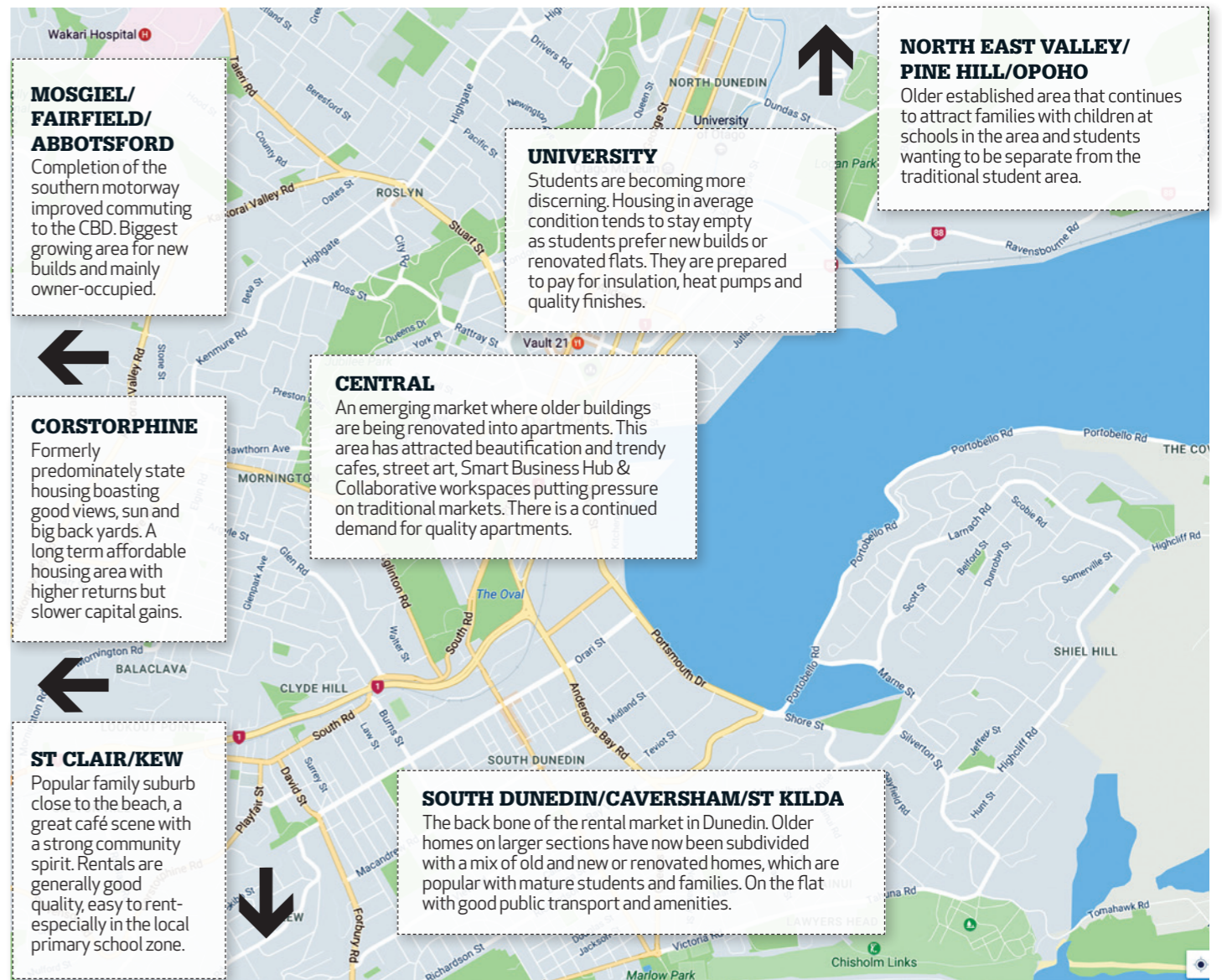
Dunedin/St Kilda. Caversham also has a higher gross yield of 6.7%. The change in median rent over the last year

has differed significantly across the city with there being no change in Rural Dunedin and a 20.3% increase in Central Dunedin. ■



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