
# ANZ Property Investment Survey

NZPIF Summary - April 2008

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# Summary

- The NZ Property Investor magazine is again the most preferred source of information for monitoring the property market (71%), followed by the Property Investors' Association (34%) and Newspapers (28%).
- Six in every ten investors (61%) are members of their local Property Investors Association (PIA). Investors with larger portfolios are more likely to be members of their local PIA.
  - An opportunity exists to communicate the benefits of the PIA to investors, as the key reason for not joining a PIA is a lack of awareness of these benefits. Key benefits to be communicated to non-members include the availability of information and education, networking potential, and the NZPIF providing advocacy for investors.
- Changes since previous surveys are illustrative of changes (or anticipated changes) in the investment property market:
  - Compared to 2006, fewer investors have made a property purchase in the last 12 months (40%, compared to 49% in 2006). Also, fewer investors plan to purchase another property in the next 12 months (39% plan to buy in the next 12 months compared to 49% in 2007).
  - Overall, key issues for investors this year are high interest rates, low returns, and potential policy/legislation changes. Low rents and high interest rates are key reasons for not purchasing the next 12 months. Concerns regarding high interest rates are much more prominent this year than last year, as more investors are saying that interest rate volatility is the biggest risk for property investment (18%, cf. 11% in 2007).

- Potential legislation changes that most concern investors are taxation changes or changes to LAQC rules (28%), ring-fencing (20%), and the possibility of capital gains tax (19%).
- In contrast to the 2007 survey, investors are less optimistic about growth in property prices over the next 12 months (70% of investors expect less than 2.5% growth). However, growth expectations over the long term are largely consistent with previous surveys.
- Nearly all investors expect growth in property rents over the next year, the next 5 years, and the next 10 years. Most investors expect 2.6 to 10% growth in rents over the next 10 years.

## Investment portfolios:

- Consistent with increasing property values, the value of investment portfolios has been increasing gradually since the 2005 survey. The median value of property investment portfolios is now $1,100,000.
- The median equity held in investment properties is higher than in previous years, where it had remained relatively stable at around $400,000. The median equity reported this year is $500,000.
- On average, property investors who responded to the survey have 5 properties. The majority (88%) do not own commercial property.
- For 41% of investors, gearing ratios fall between .31 and .6.
- For 63% of investors, gross yields fall between 3.1 and 6%.
- 43% of investors report a negative and 43% report a positive net yield.


# Background and Method

# Introduction

- The annual ANZ Property Investment survey was conducted in March by ANZ in association with the New Zealand Property Investors Federation.
- This follows on from surveys conducted in 2005, 2006 and 2007.
- 2008: ANZ surveyed New Zealand property investors during March.
- The objective of the survey was to gain further insights and understanding of property investors, the profile of portfolios held, and of other issues related to property investment.

# Method

- A total of 428 property investors completed the survey (252 investors completed an online survey and 176 completed a paper-based version).

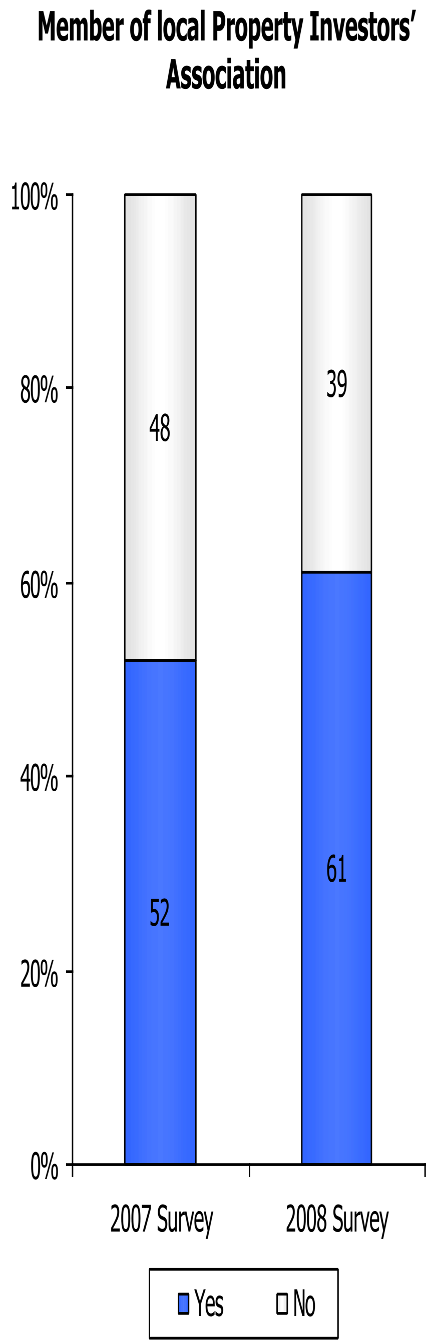
- The survey consisted of questions relating to investors' property portfolios, their use of property management, their investment strategy, sources of information, insurance cover, investment property finances, and the Property Investors' Association.

- Those who completed the survey went into the draw to win one of two $250 gift cards for Mitre 10.

- Where appropriate, comparisons are made with the previous three years on a like for like basis. Unless specified, all sub-analyses presented in this report were performed on the most recent results, and are statistically significant.


# Findings: Property Investors' Associations

# Property Investors' Association membership

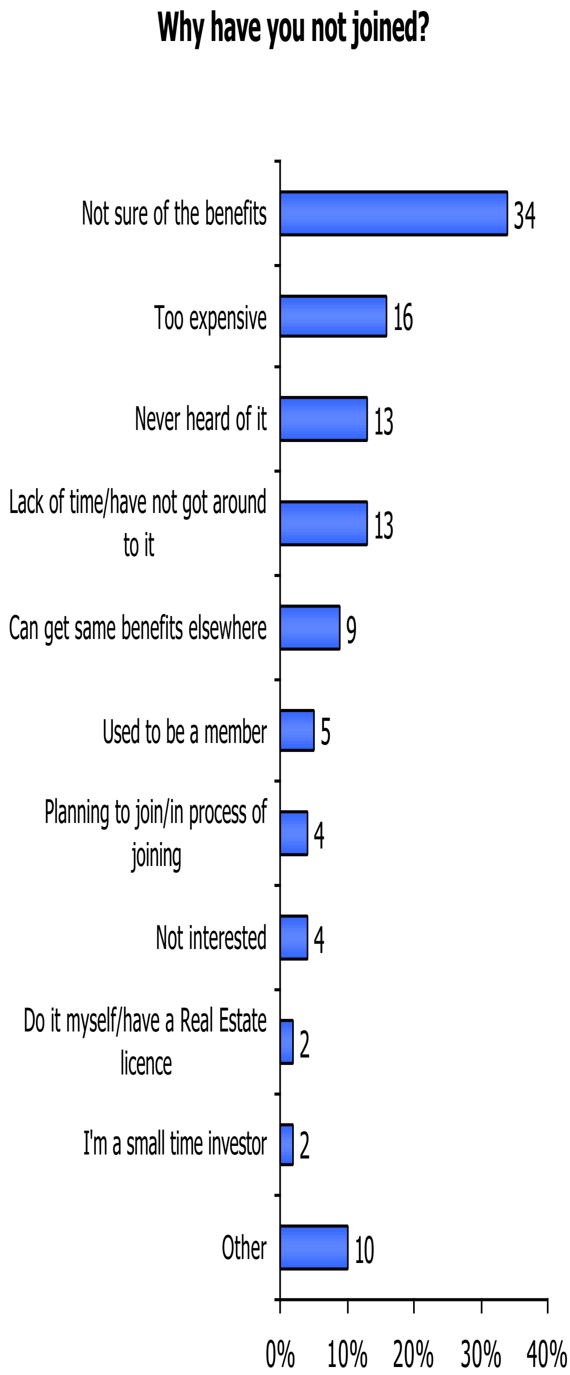



Six in ten investors are members of their local PIA.

Those <u>less likely</u> to be members are:

- Those with fewer properties (47% of those with a single property are members, cf. 57% of those with 2-3 properties, and 71% of those with 4 or more properties).
- Those who spend 5 or less hours per week managing their portfolio (54% are members, cf. 72% of those who spend longer managing their portfolio).

An opportunity exists to communicate the benefits of the PIA to investors, as the key reason for not joining a PIA is a lack of awareness of these benefits.

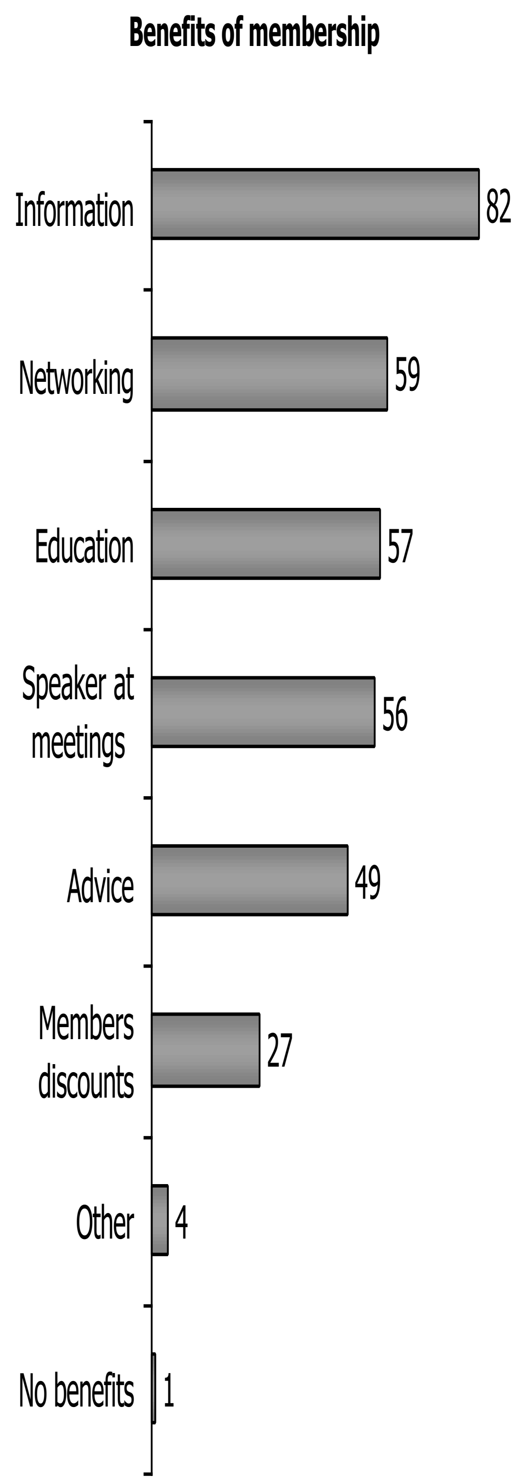



Source: Q24a. Are you a member of your local Property Investors' Association?
Base: All investors (n = 428)

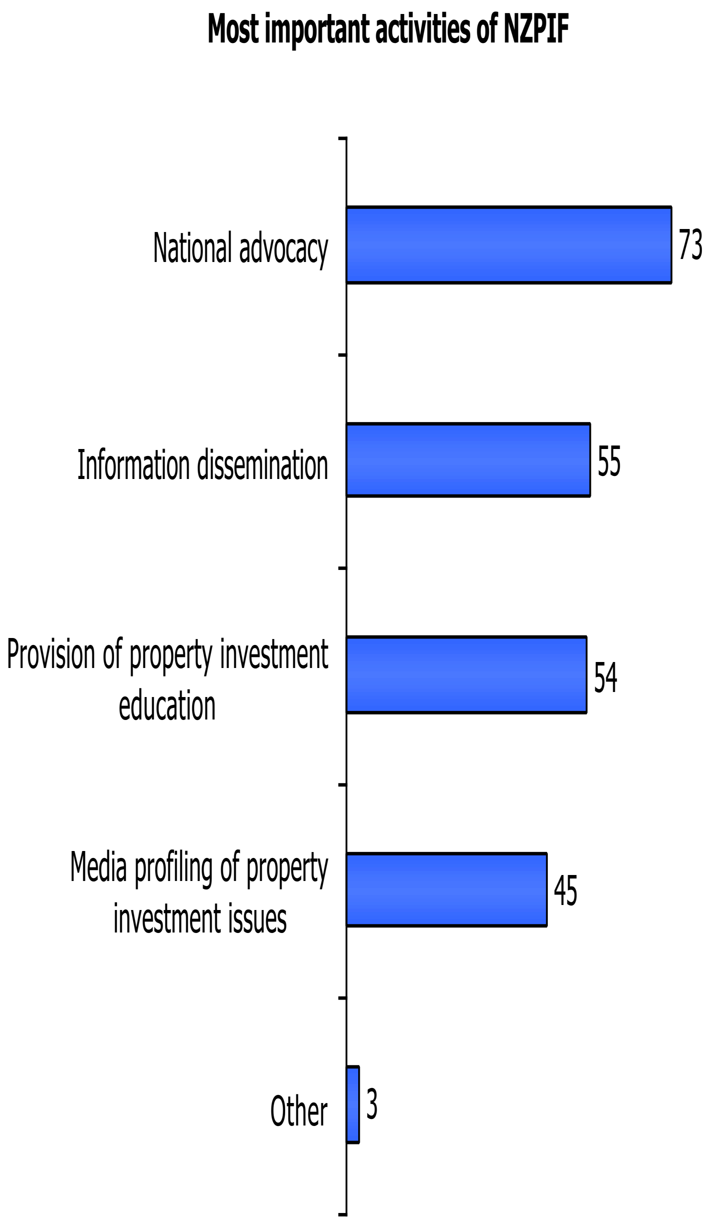
Source: Q24b. Why have you not joined your local Property Investors' Association?
Base: All investors who are not members of a PIA, excluding not answered or don't know (n = 166)

# Benefits and activities of the Property Investors' Association

Important benefits to be communicated to non-members include the availability of information and education, networking potential, and that PIAs provide advocacy for investors.




Source: Q24c. What do you think are the main benefits of membership? Base: All investors, excludes don't know and not answered (n=395).




Source: Q24d. What do you think are the most important activities of the NZ Property Investors' Federation? Base: All investors, excludes don't know and not answered (n=394).


# Findings: Sources of Information in 2007

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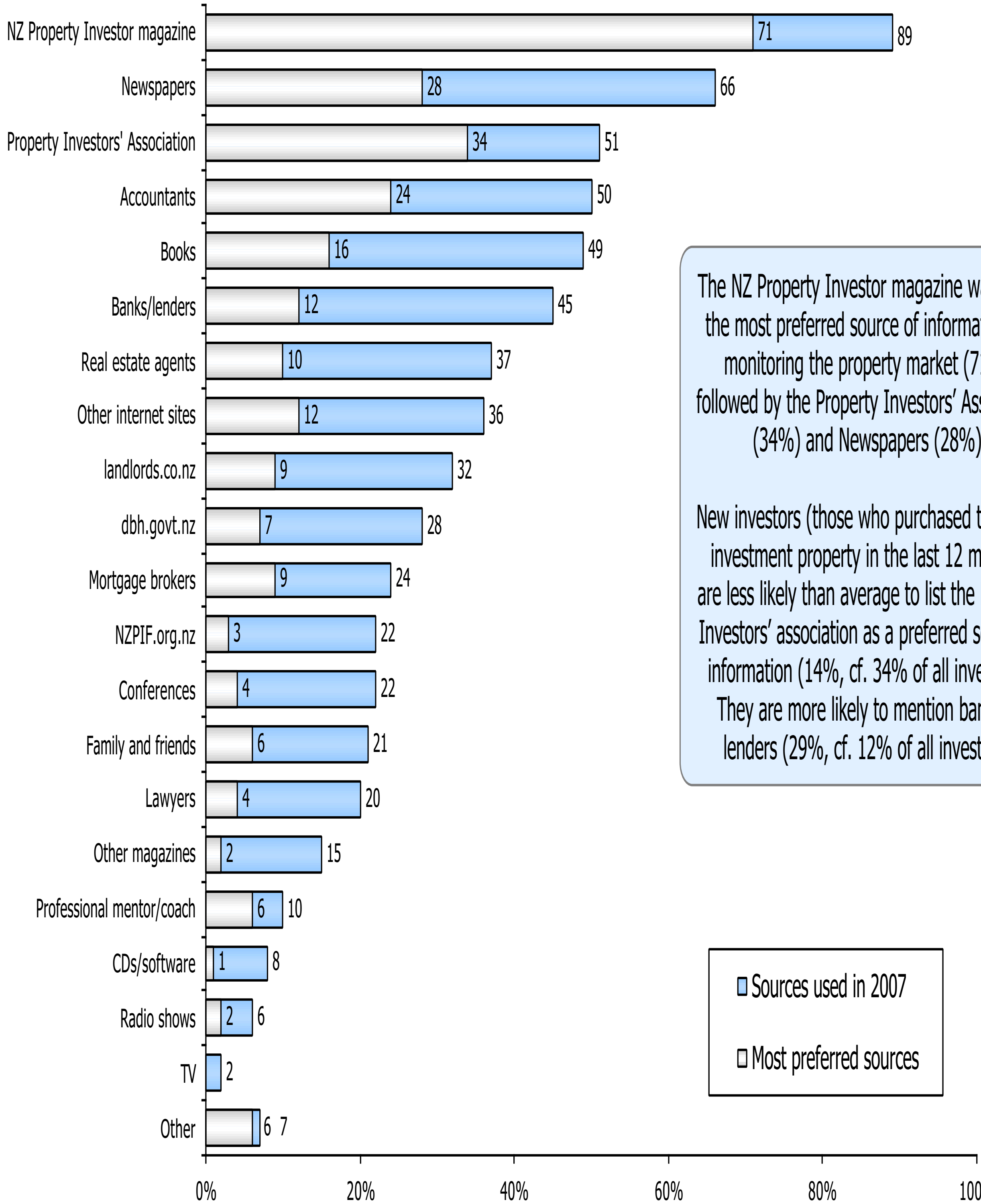
# Preferred sources of information to monitor changes in the property market in 2007



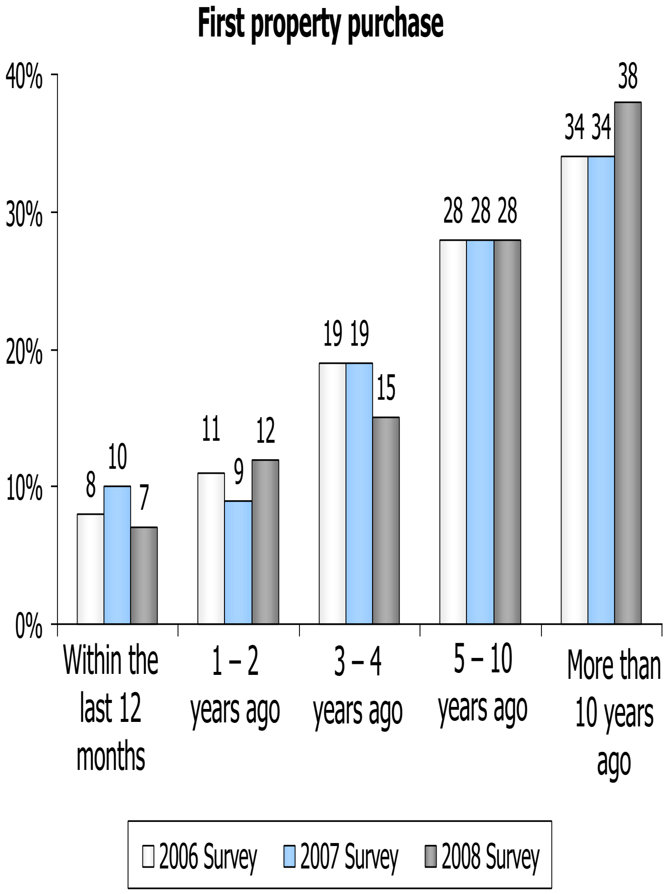

The NZ Property Investor magazine was again the most preferred source of information for monitoring the property market (71%), followed by the Property Investors' Association (34%) and Newspapers (28%).

New investors (those who purchased their first investment property in the last 12 months) are less likely than average to list the Property Investors' association as a preferred source of information (14%, cf. 34% of all investors). They are more likely to mention banks or lenders (29%, cf. 12% of all investors).

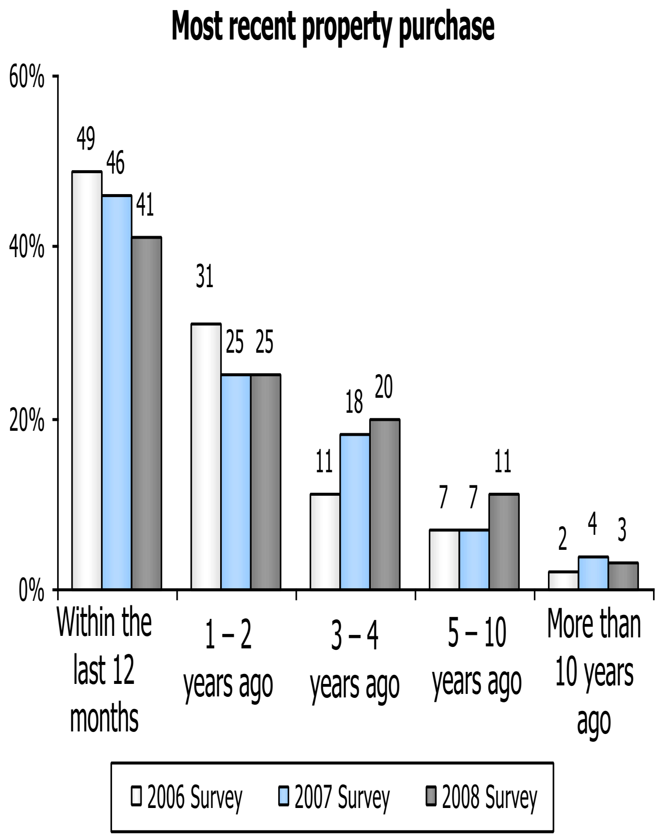
Source: Q16a. Which of the following sources of information did you use in 2006 to monitor changes and developments in the property market? Q16b. Of the sources identified in 16a, please select your three most preferred. Base: All investors, excludes don't know and not answered (n Q16a = 420, n Q16b = 402).


# Findings:
# Property portfolio

# Property purchases



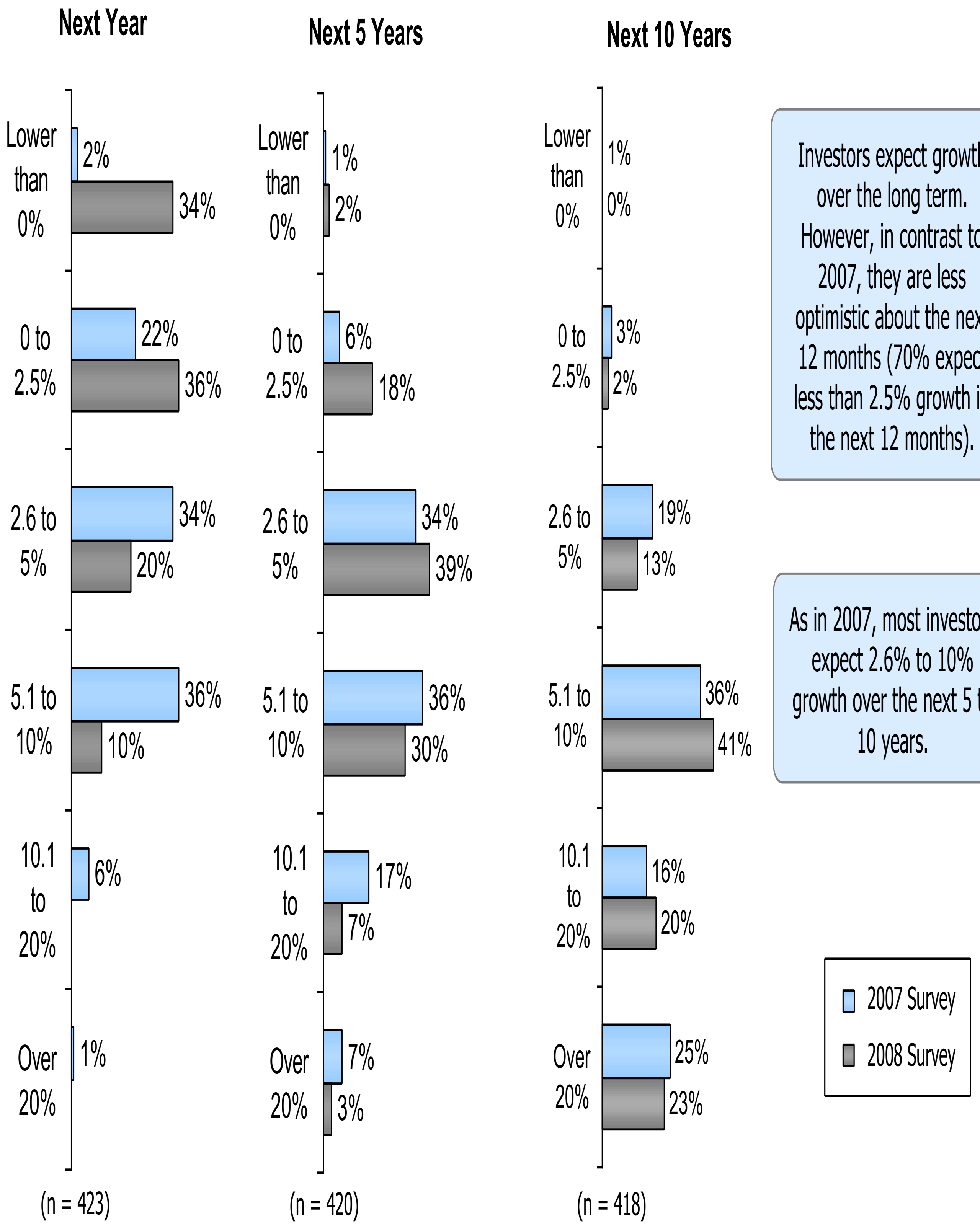

Most of the investors we surveyed are 'seasoned investors', with 81% purchasing their first investment property 3 or more years ago.




Compared to 2006, fewer investors have made property purchases in the last 12 months.

Source: Q4. When did you buy your first investment property? Q3. When did you buy your most recent investment property? Base Q4: All investors (n = 413). Base Q3: All investors (n = 428). Excludes don't know and not answered.

# Expectations surrounding growth in property prices

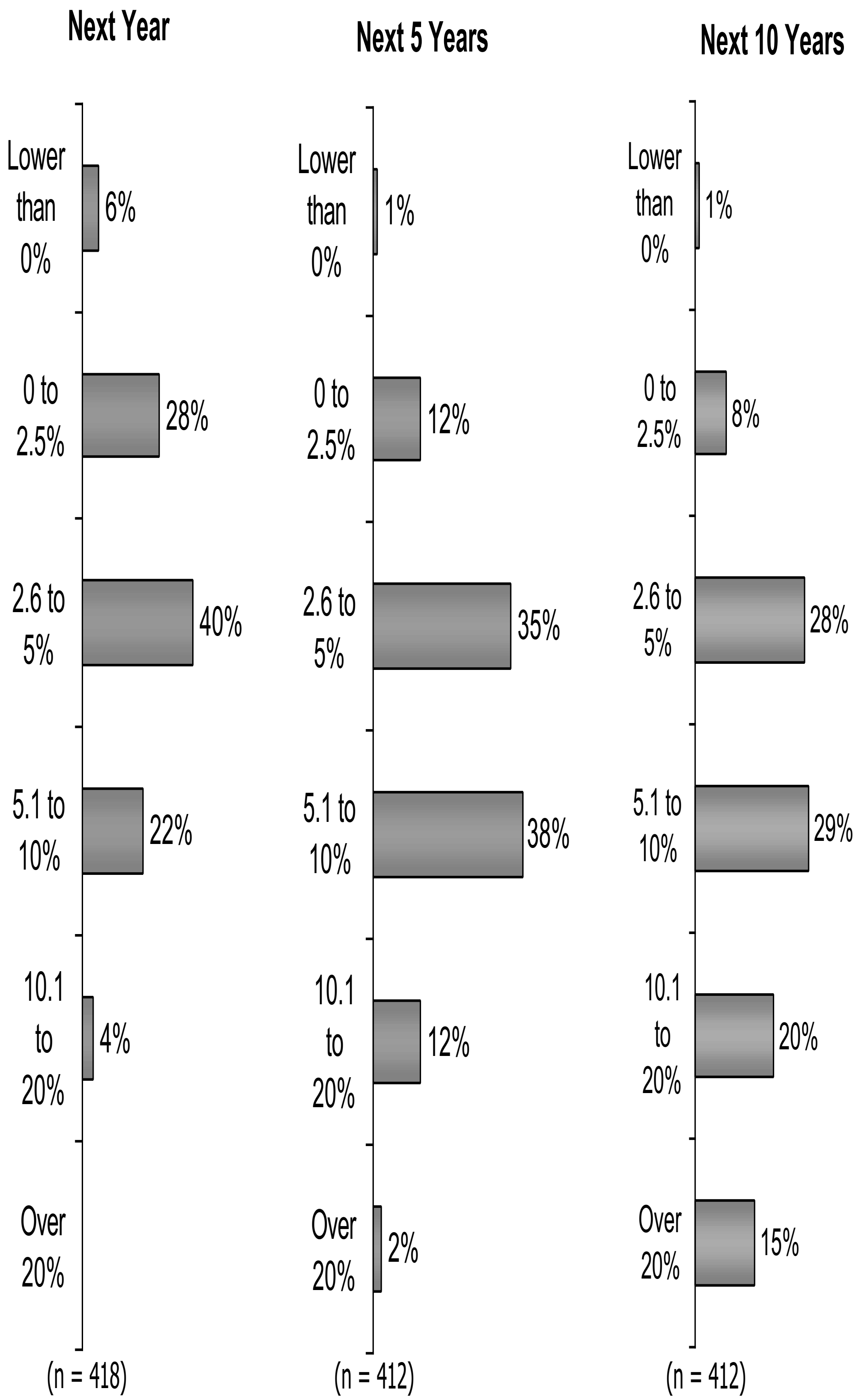



Investors expect growth over the long term. However, in contrast to 2007, they are less optimistic about the next 12 months (70% expect less than 2.5% growth in the next 12 months).

As in 2007, most investors expect 2.6% to 10% growth over the next 5 to 10 years.

Source: Q7a. What growth do you expect to see in investment property prices in the region where the bulk of your investment properties are? Base: All investors, excludes don't know and not answered.

# Expectations surrounding growth in property rents

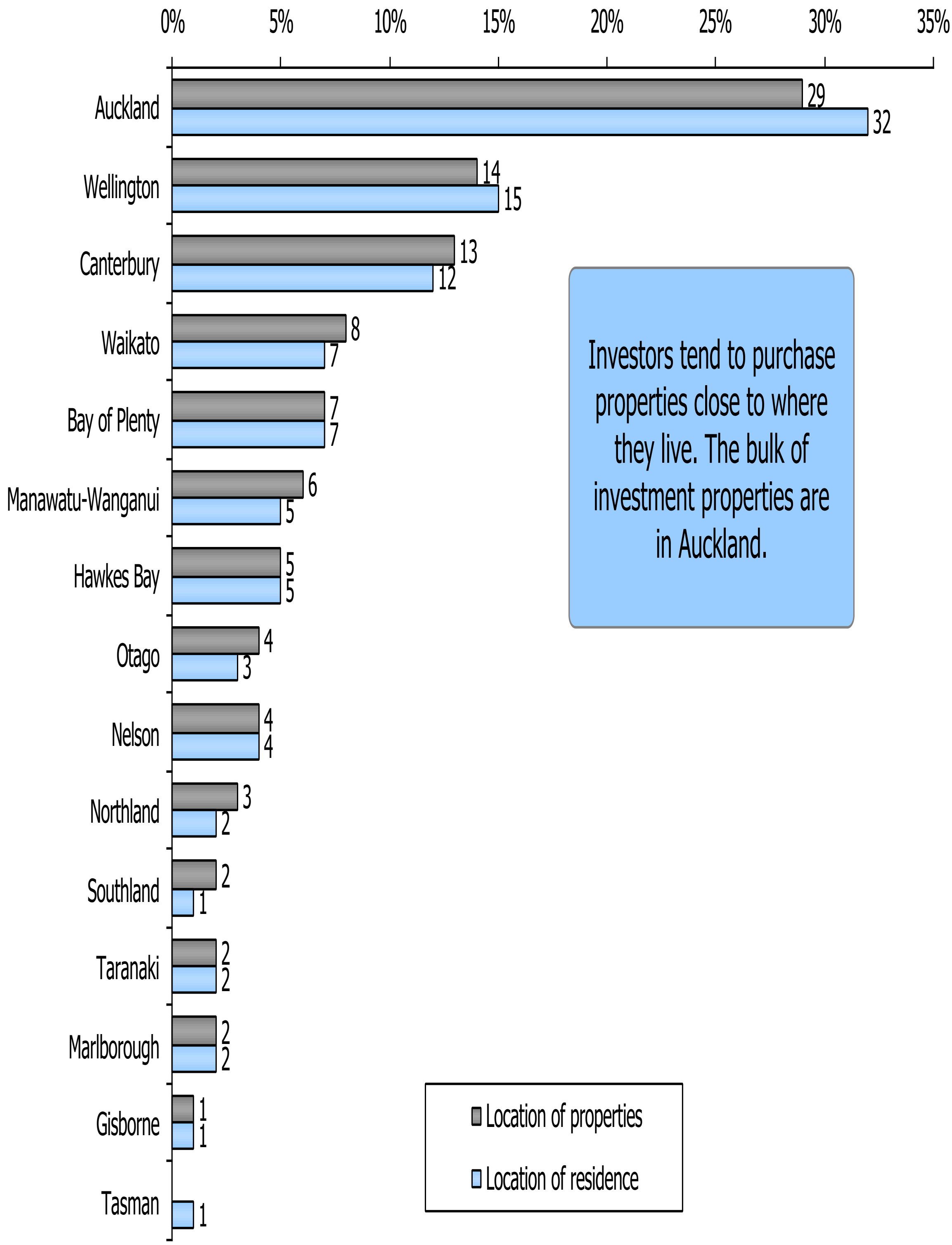



Nearly all investors expect growth in rents. Consistent with expectations surrounding property prices, investors expect more growth in rents over the long term.

Most investors expect 2.6 to 10% growth over the next 5 to 10 years.

Source: Q7b. What growth do you expect to see in investment property rents in the region where the bulk of your investment properties are? ? Base: All investors, excludes don't know and not answered.

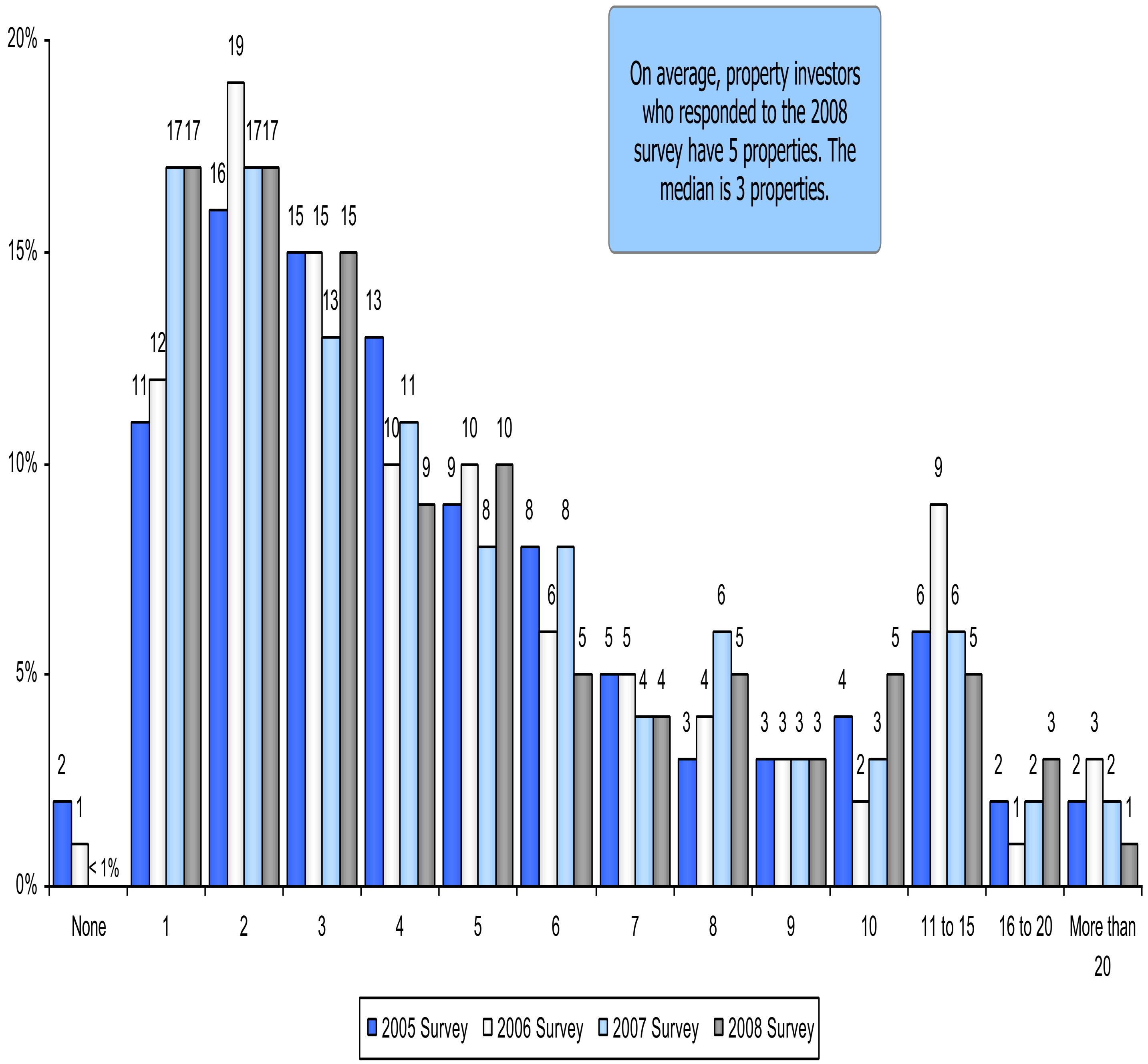
# Location of properties and residence




Investors tend to purchase properties close to where they live. The bulk of investment properties are in Auckland.

Source: Q5. Where are the bulk of your investment properties? Q21 Which region do you live in? Base: All investors, excludes don't know and not answered (n Q5 = 427; n Q21 = 428).

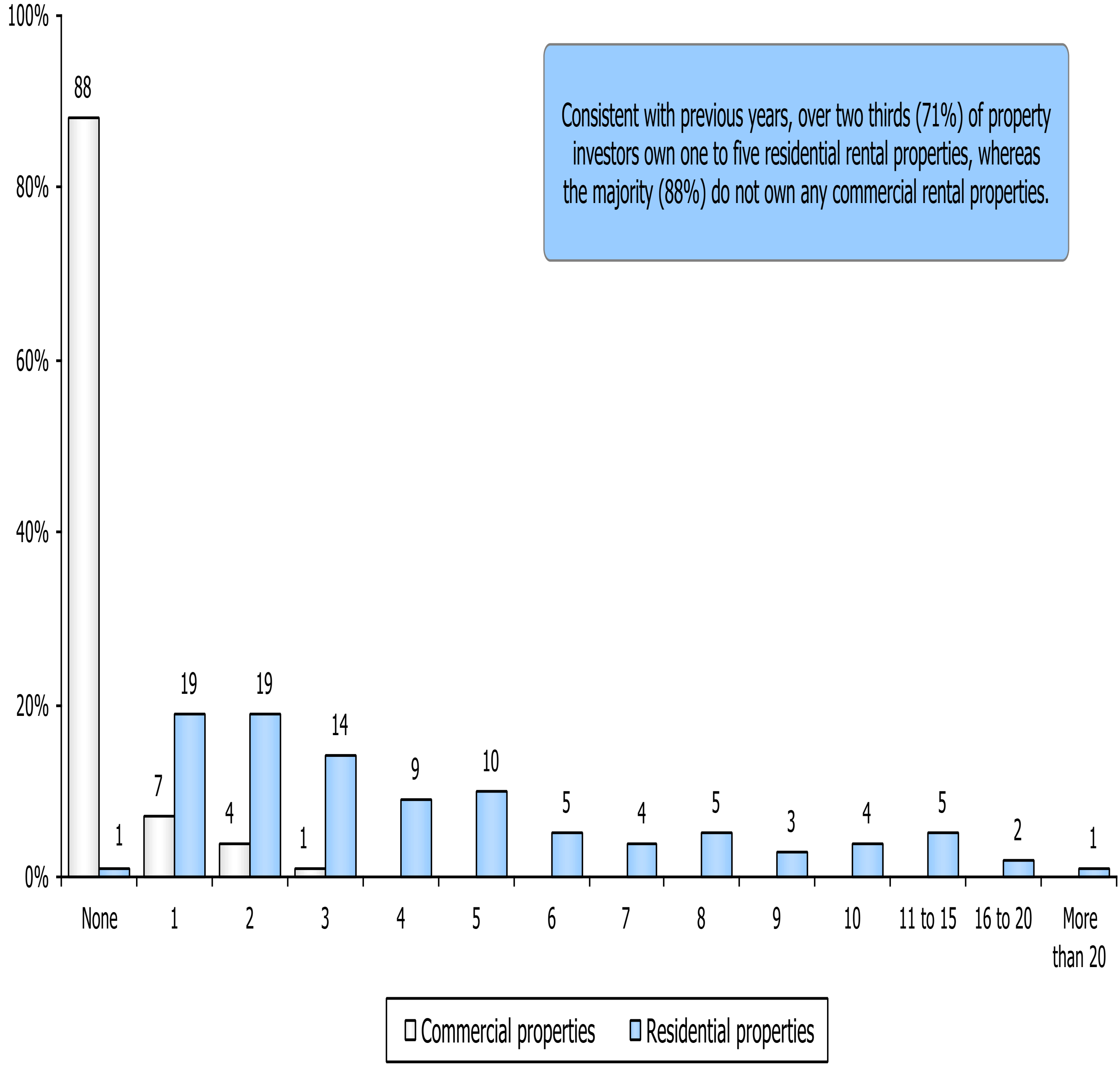
# Total number of rental properties owned




Source: Q1. How many residential rental properties do you own? Q2. How many commercial rental properties do you own? Base: All investors, excludes don't know and not answered (n=420).

# Number of rental properties owned

## Residential / commercial split

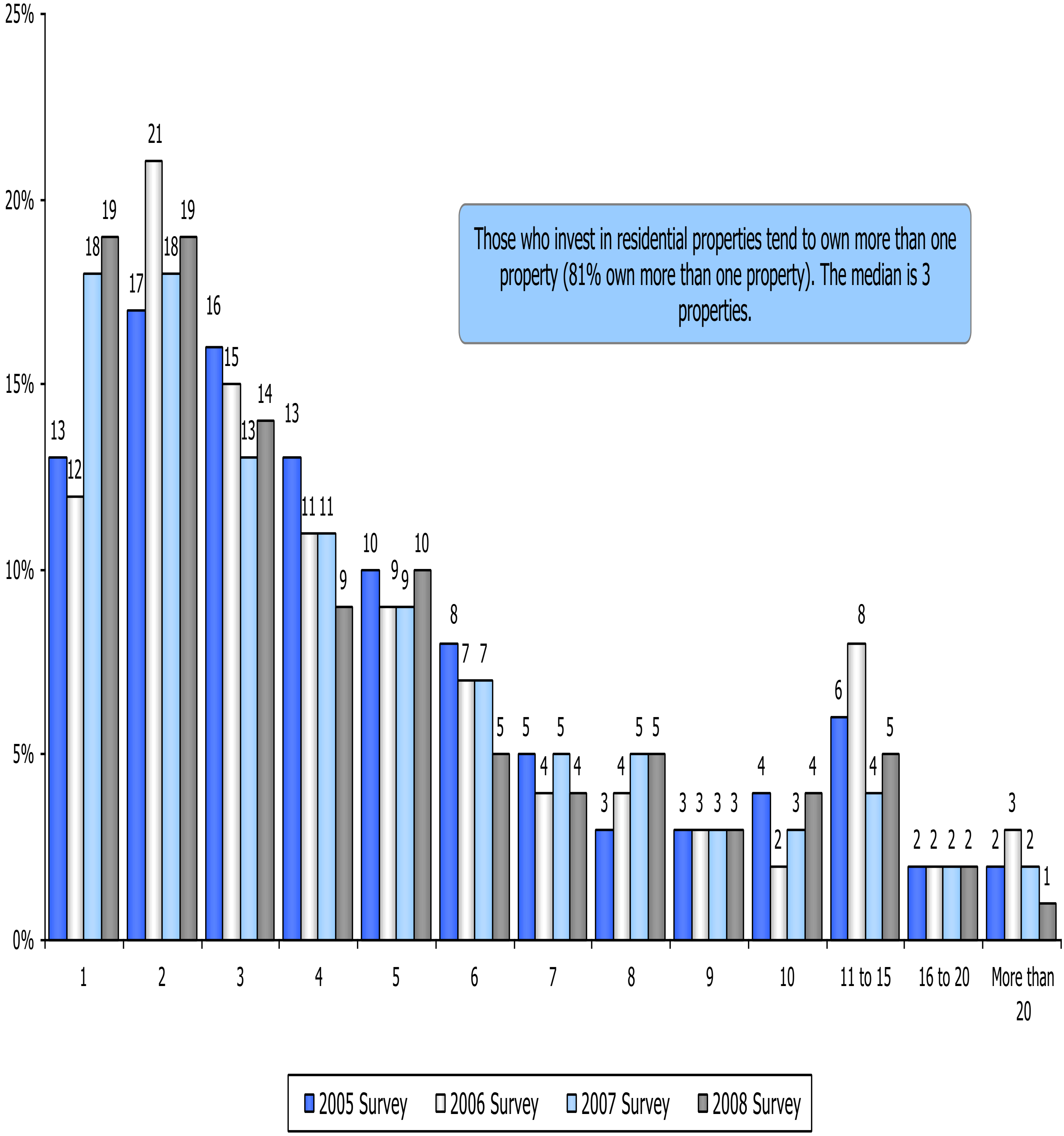



Consistent with previous years, over two thirds (71%) of property investors own one to five residential rental properties, whereas the majority (88%) do not own any commercial rental properties.

Source: Q1. How many residential rental properties do you own? Q2. How many commercial rental properties do you own? Base: All investors, excludes don't know and not answered (n Q1 =426, n Q2 = 422).

# Residential rental properties owned

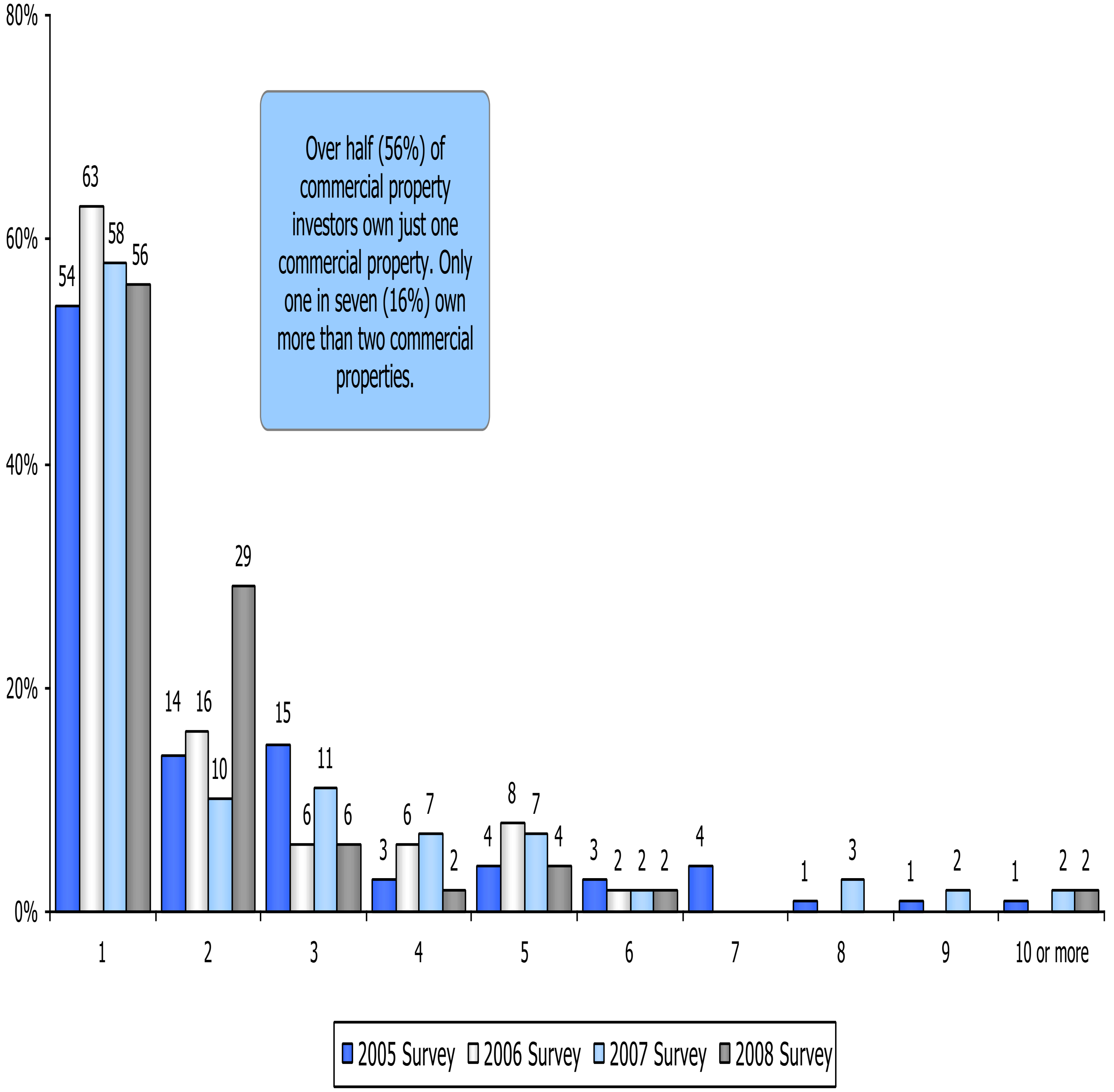
## 2005 / 2006 / 2007 / 2008




Source: Q1. How many residential rental properties do you own? Base: Those who own residential rental property, excludes not answered (n=422).

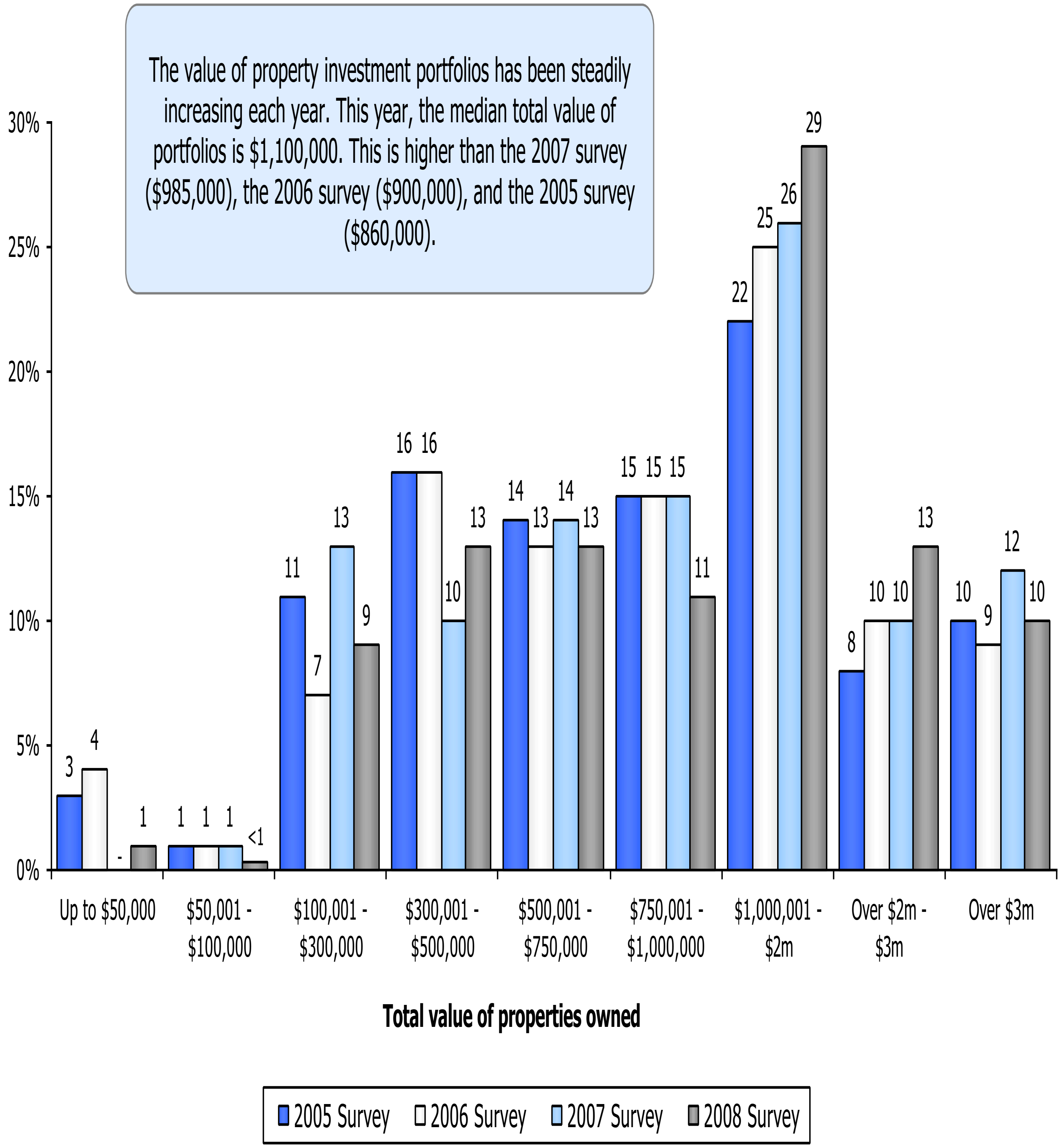
# Commercial rental properties owned

## 2005 / 2006 / 2007 / 2008




Source: Q2. How many commercial rental properties do you own? Base: Those who own commercial rental property, excludes not answered (n = 52).

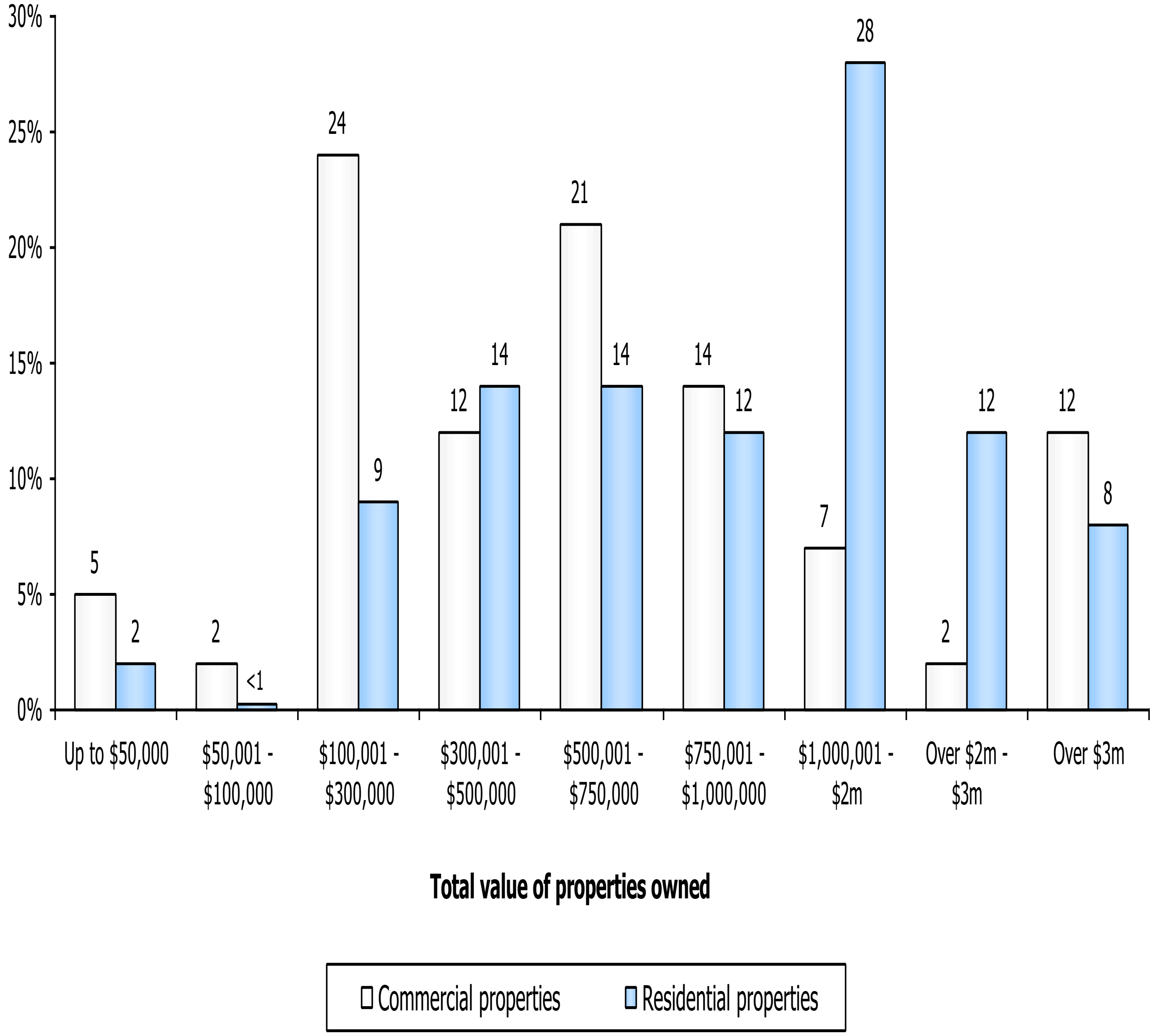
# Total value of property portfolio




Source: Q6a. What is the total approximate market value of your (Residential/Commercial) properties? Base: Those who own property, excludes don't know and not answered (n = 373).

# Value of properties
## Residential / commercial split

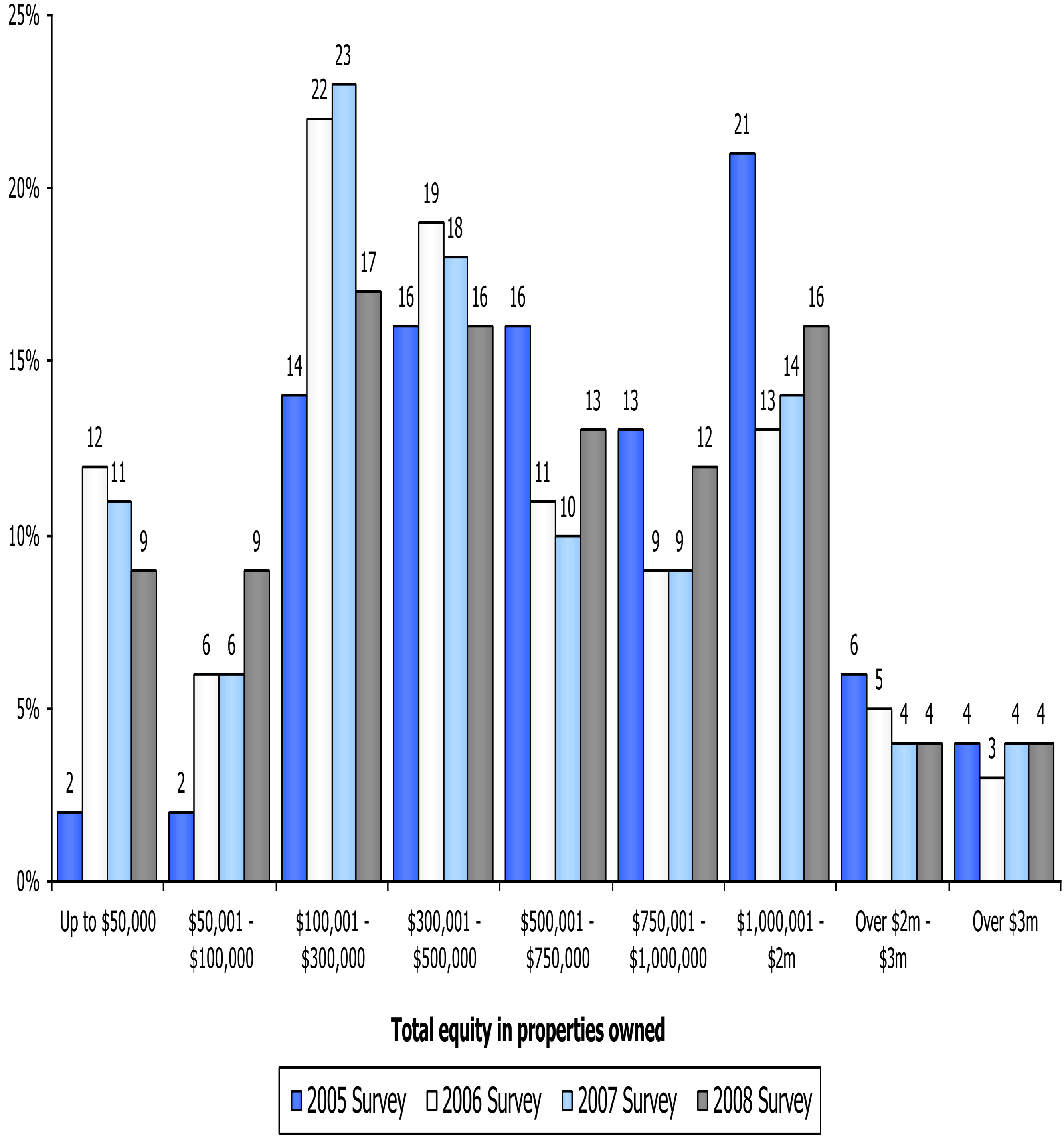
As in previous years, the value of residential property portfolios tends to be higher than the value of commercial property portfolios (74% of residential property portfolios are valued above $500,001, compared to 56% of commercial property portfolios). This is consistent with the finding that residential property portfolios tend to contain a greater number of properties than commercial property portfolios.




Source: Q6a. What is the total approximate market value of your (Residential/Commercial) properties? Base: Commercial properties – those who own commercial properties (n = 42), Residential properties – those who own residential properties (n = 381). Excludes don't know and not answered.

# Total equity held in properties

The median equity held in investment properties is higher than in previous years, where it has remained relatively stable. The median equity held in investment properties is $500,000, compared to $400,000 in the 2007 survey, $405,000 in the 2006 survey, and $395,000 in the 2005 survey.



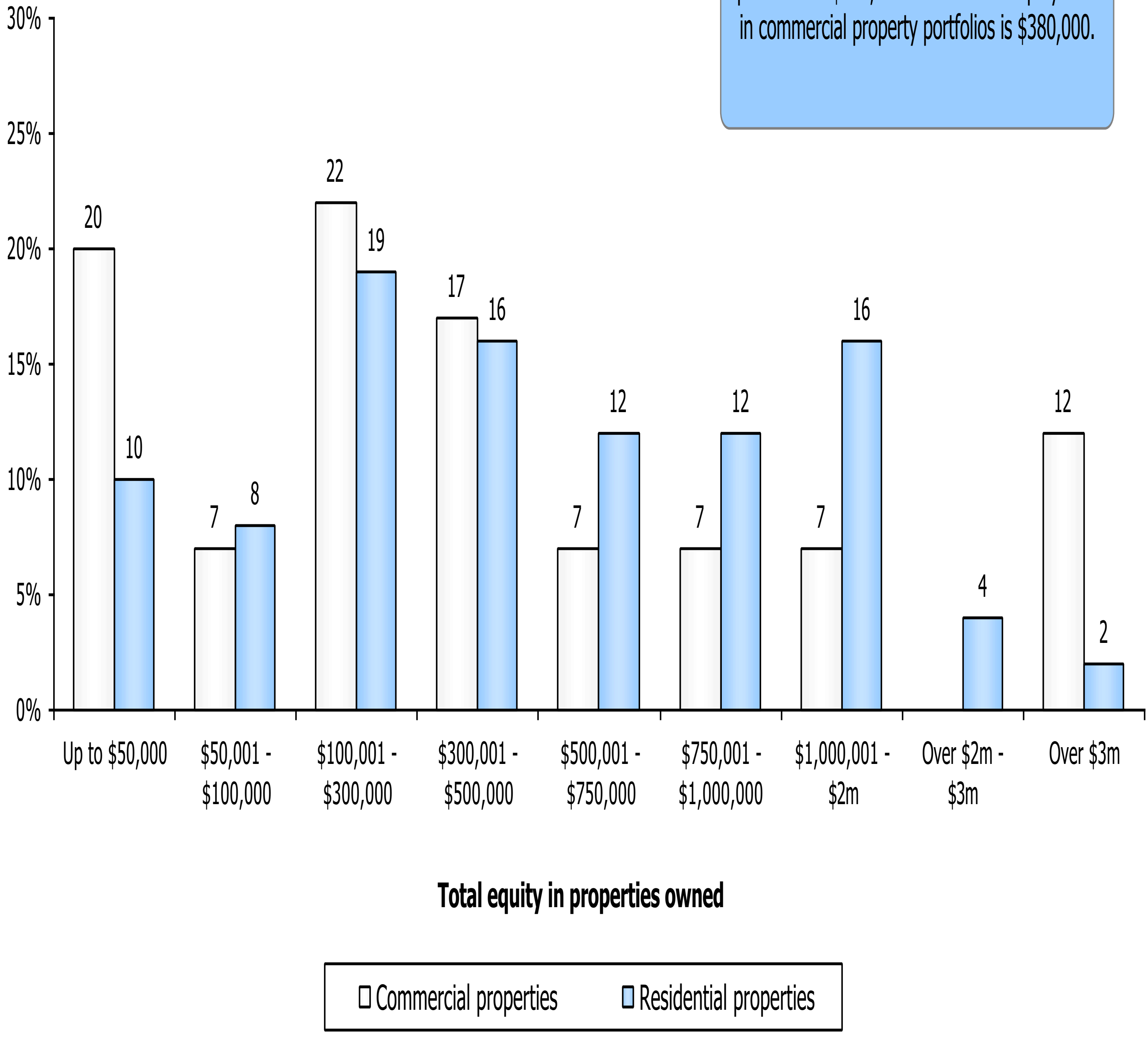

| Total equity in properties owned | 2005 Survey | 2006 Survey | 2007 Survey | 2008 Survey |
|---|---|---|---|---|
| Up to $50,000 | 2 | 12 | 11 | 9 |
| $50,001 - $100,000 | 2 | 6 | 6 | 9 |
| $100,001 - $300,000 | 14 | 22 | 23 | 17 |
| $300,001 - $500,000 | 16 | 19 | 18 | 16 |
| $500,001 - $750,000 | 16 | 11 | 10 | 13 |
| $750,001 - $1,000,000 | 13 | 9 | 9 | 12 |
| $1,000,001 - $2m | 21 | 13 | 14 | 16 |
| Over $2m - $3m | 6 | 5 | 4 | 4 |
| Over $3m | 4 | 3 | 4 | 4 |

Source: Q6b. What is the current equity you hold in those properties? Base: Those who own property, excludes don't know and not answered (n = 361).

# Equity held in properties

## Residential / commercial split

The median equity held in residential property portfolios is $480,500. The median equity held in commercial property portfolios is $380,000.

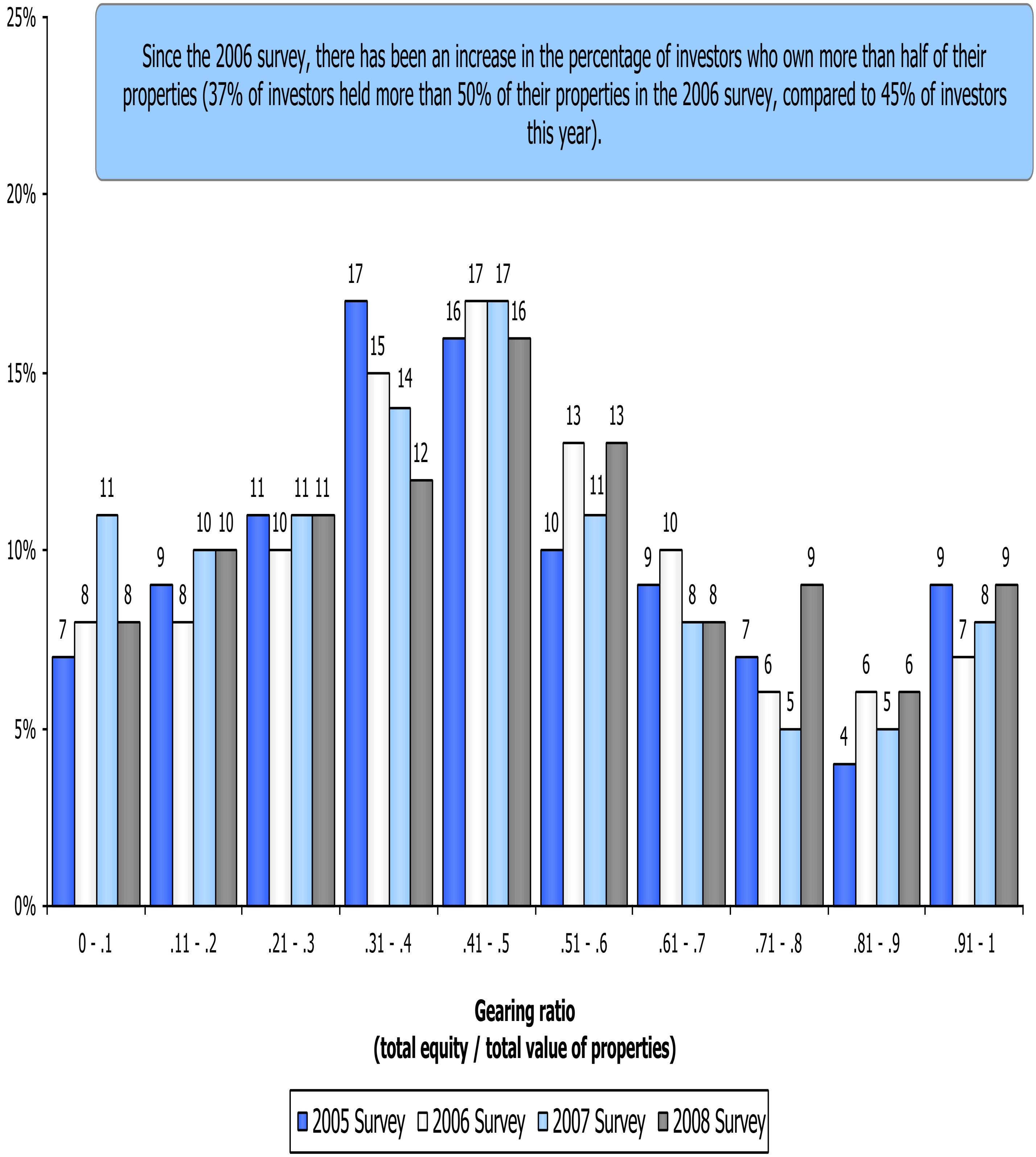



Source: Q6b. What is the current equity you hold in those (Residential/Commercial) properties? Base: Commercial properties – those who own commercial properties (n = 41), Residential properties – those who own residential properties (n = 368). Excludes don't know and not answered.

# Gearing ratio

## Proportion of equity in relation to total value of properties

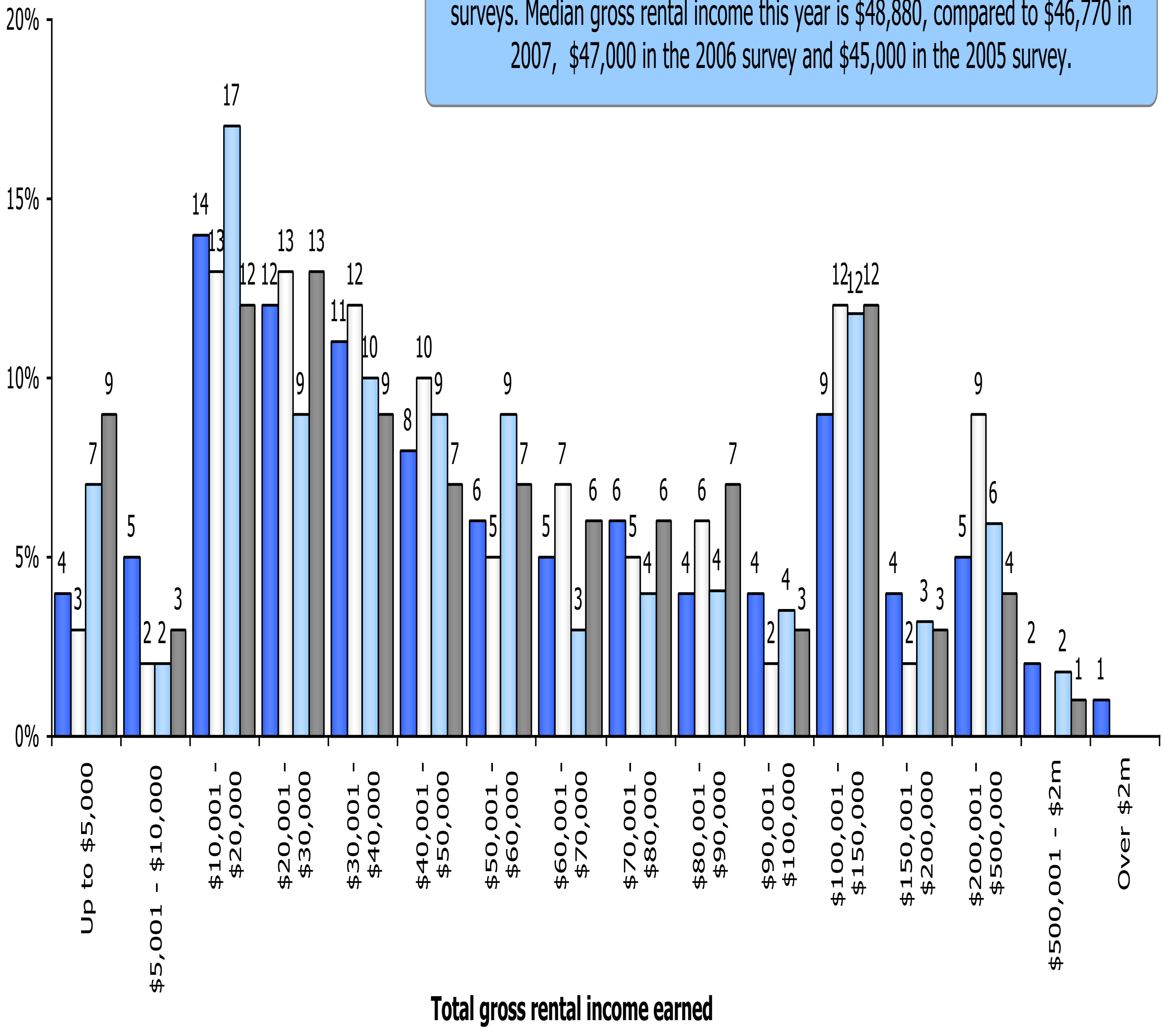
Since the 2006 survey, there has been an increase in the percentage of investors who own more than half of their properties (37% of investors held more than 50% of their properties in the 2006 survey, compared to 45% of investors this year).



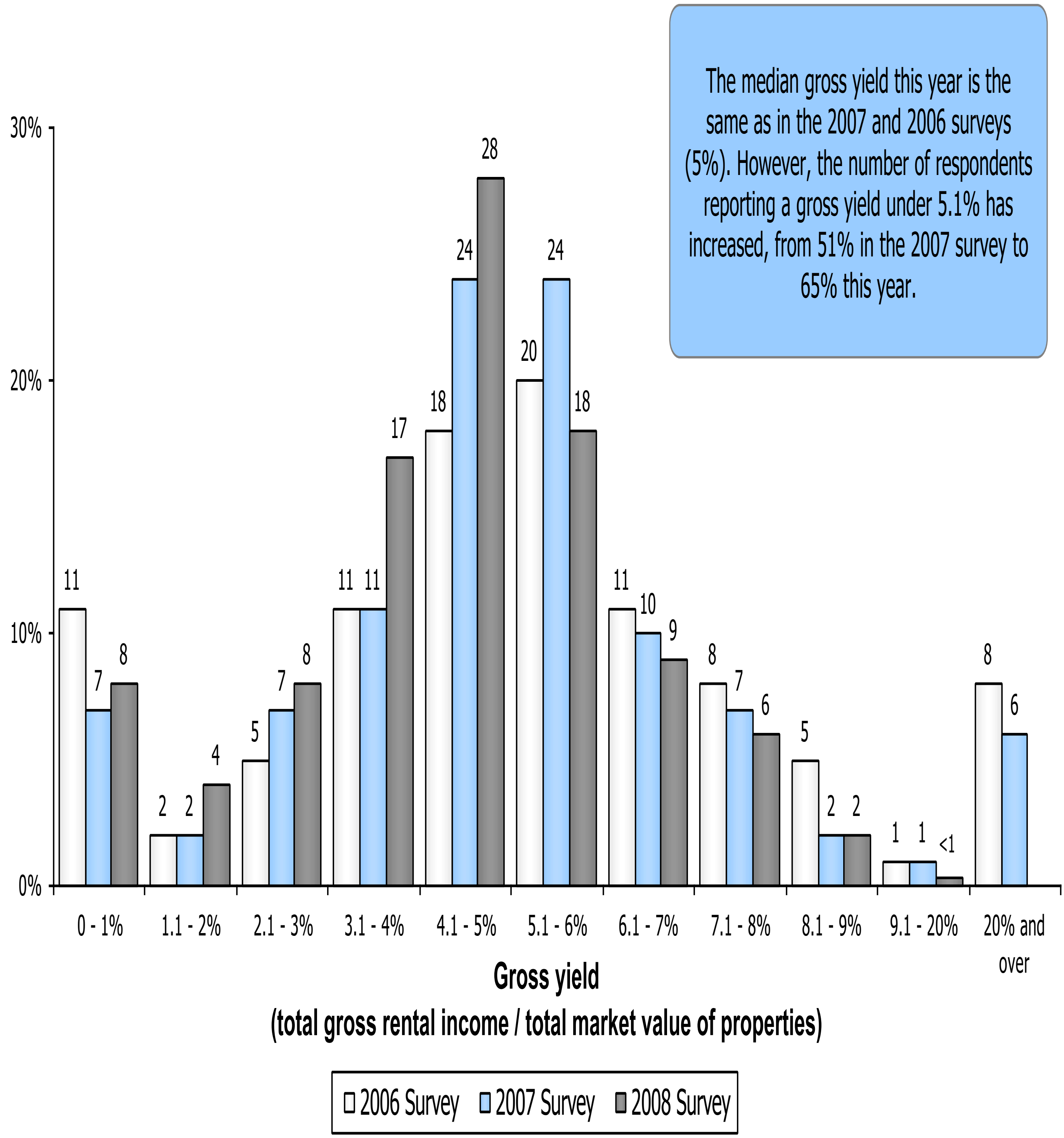

Source: Q6b. What is the current equity you hold in those properties? / Q6a. What is the total approximate market value of your properties? Base: All who own property, excludes don't know and not answered (n=353).

# Total gross rental income earned

Gross rental income earned has not changed substantially over previous years' surveys. Median gross rental income this year is $48,880, compared to $46,770 in 2007, $47,000 in the 2006 survey and $45,000 in the 2005 survey.

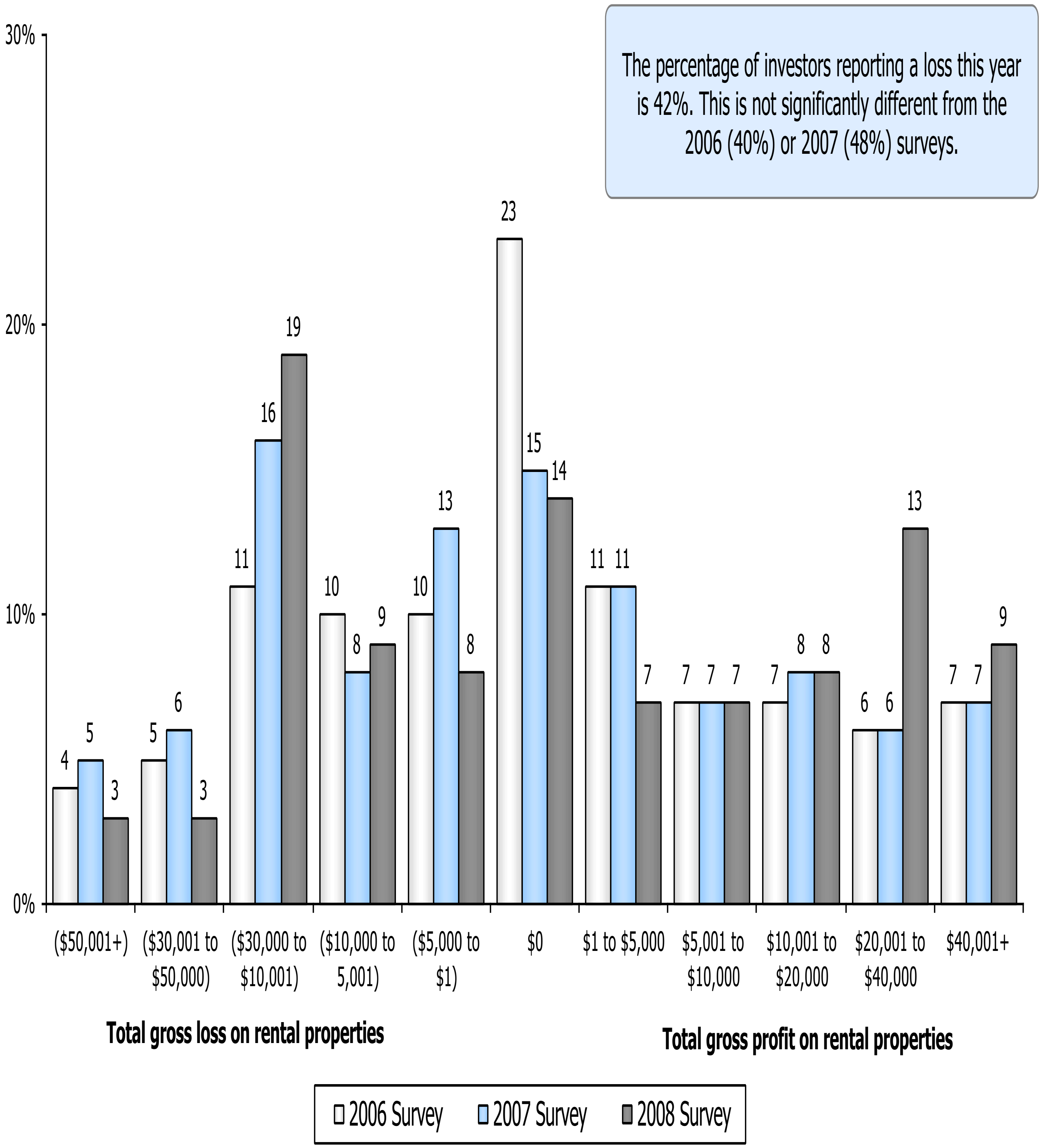



Source: Q6c. What was your total gross rental income (rent received before deduction of any expenses) earned in 2006? Base: Those who own property, excludes don't know and not answered (n=321).

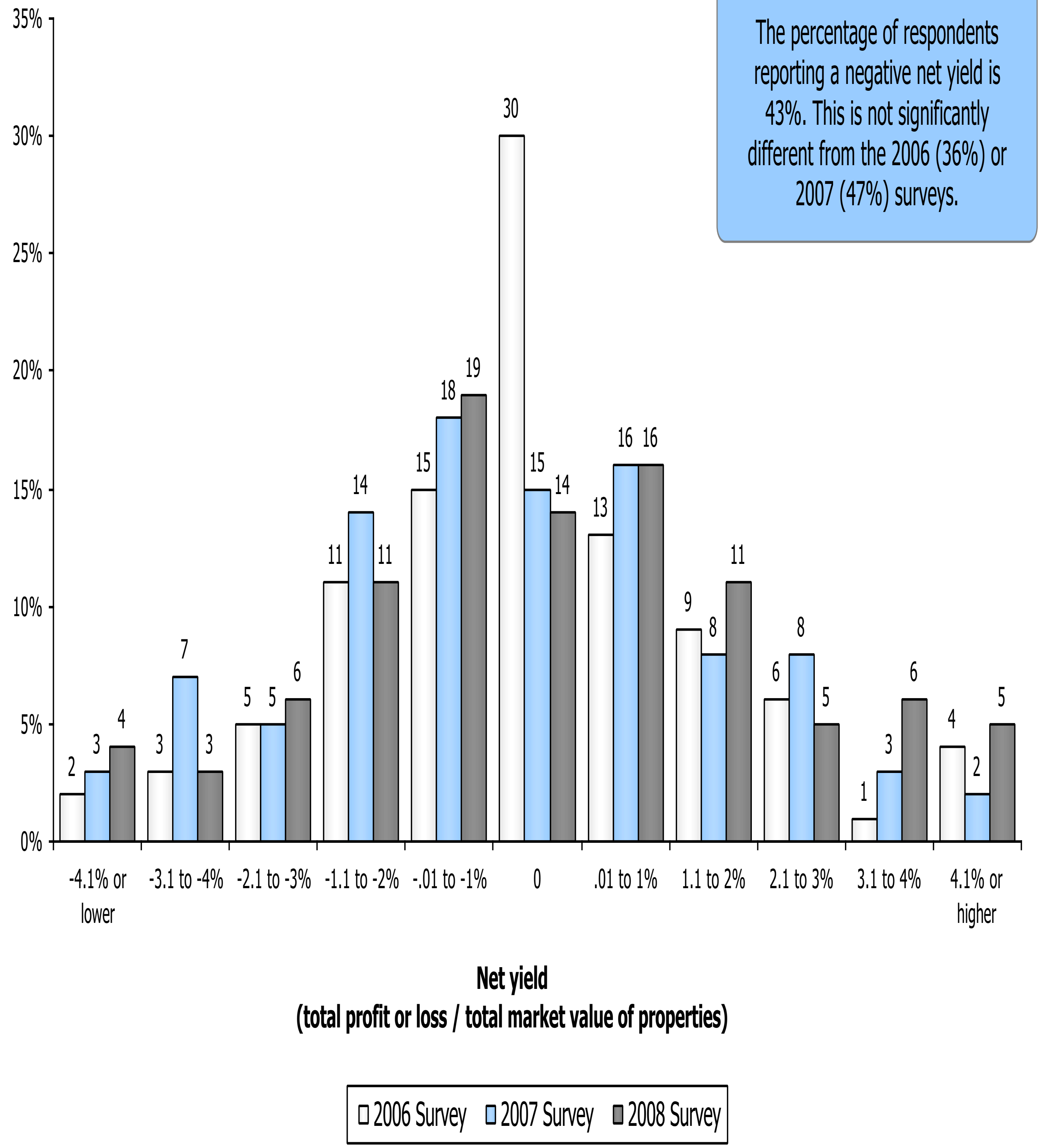



Source: Q6c. What was your total gross rental income (rent received before deduction of any expenses) earned in 2006? / Q6a. What is the total approximate market value of your properties? Base: Those who own property, excludes don't know and not answered (n=311).

# Total profit (or loss) on rental properties




Source: Q6d. What was the profit (or loss) earned on your (Residential/Commercial) rental properties (before tax) from your most recent financial accounts? Bse: Those who own property, excludes don't know and not answered (n=243).




The percentage of respondents reporting a negative net yield is 43%. This is not significantly different from the 2006 (36%) or 2007 (47%) surveys.

Source: Q6c. What was the profit (or loss) earned on your rental properties (before tax) from your most recent accounts? / Q6a. What is the total approximate market value of your properties? Base: Those who own property, excludes don't know and not answered (n=236).


# Findings:
# Investment strategy

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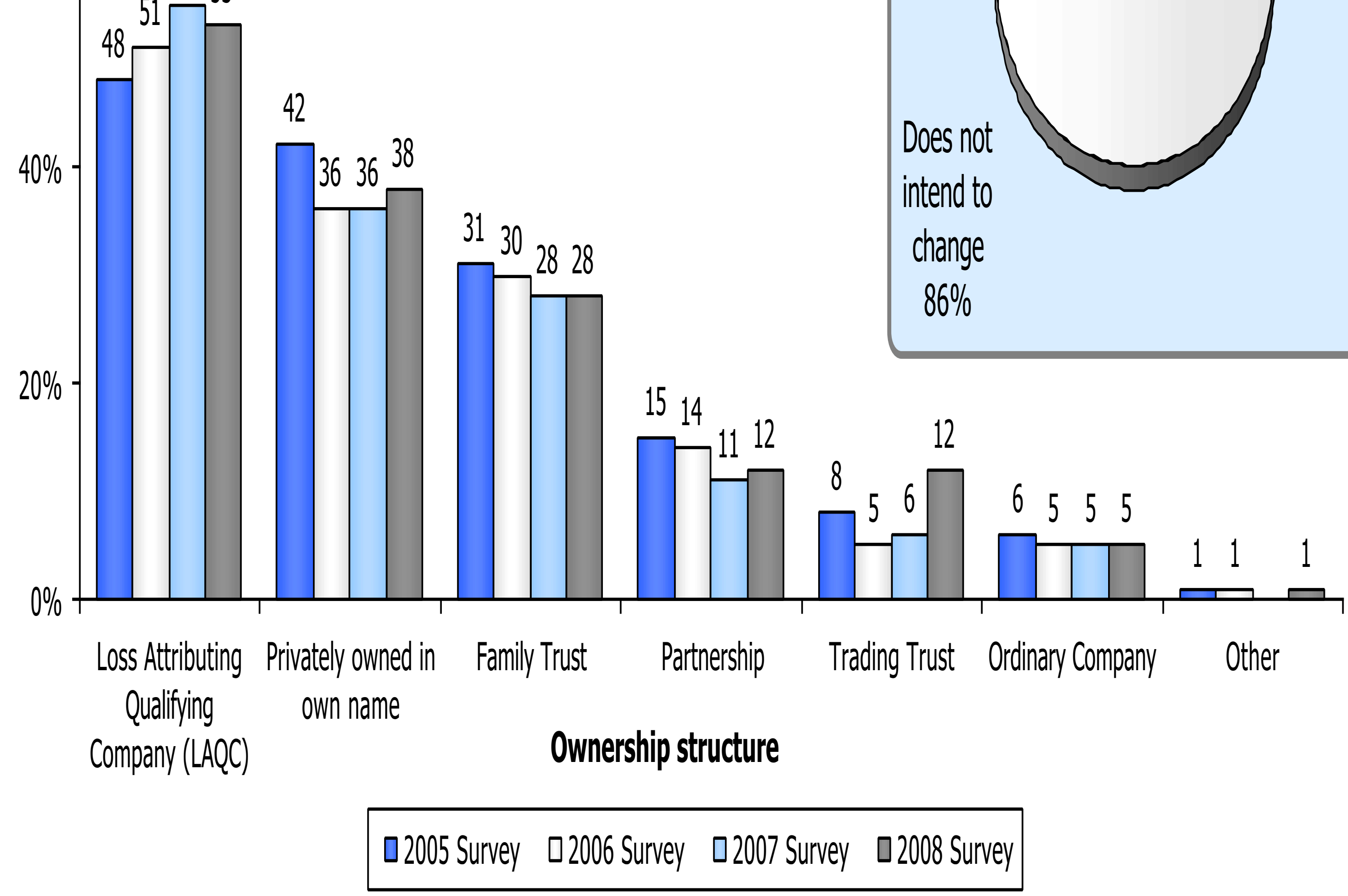
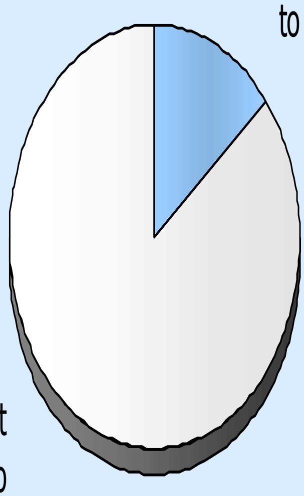
# Ownership structures

Ownership structures have not changed substantially since last year, and the majority (86%) of investors do not expect to change their owner structure over the next 12 months. Those intending to change are more likely to have properties that are privately owned in their own name (58% of those intending to change structure have privately owned properties, compared to just 35% not intending to change).



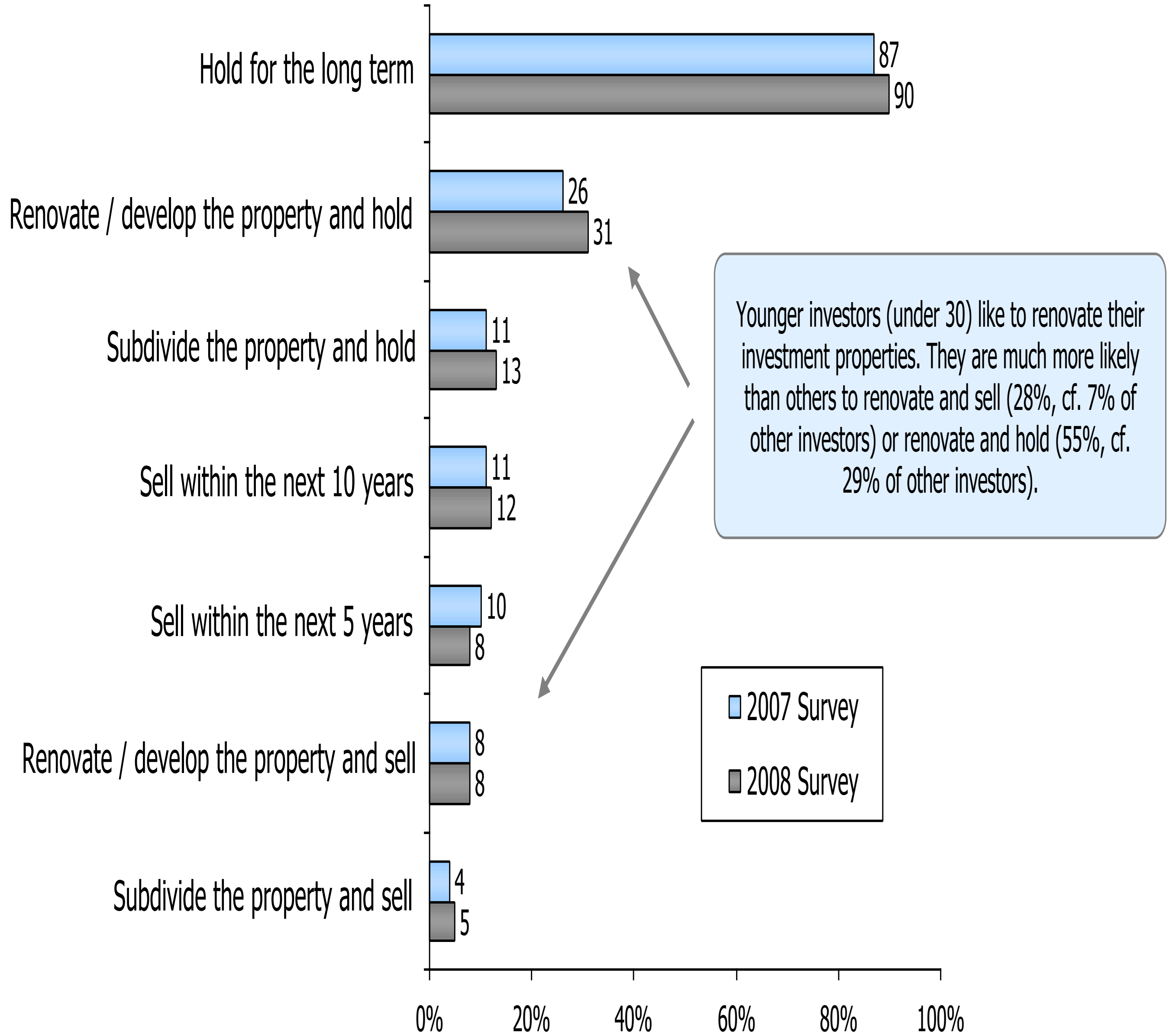

**Intention to change this structure in the next year.**




Source: Q10a. What type of ownership structure are your property investments held in? Q10b: Do you intend to change the ownership structure of your property investments over the next year?
Base: All investors, excludes don't know and not answered (n Q10a = 424, n Q10b = 423).

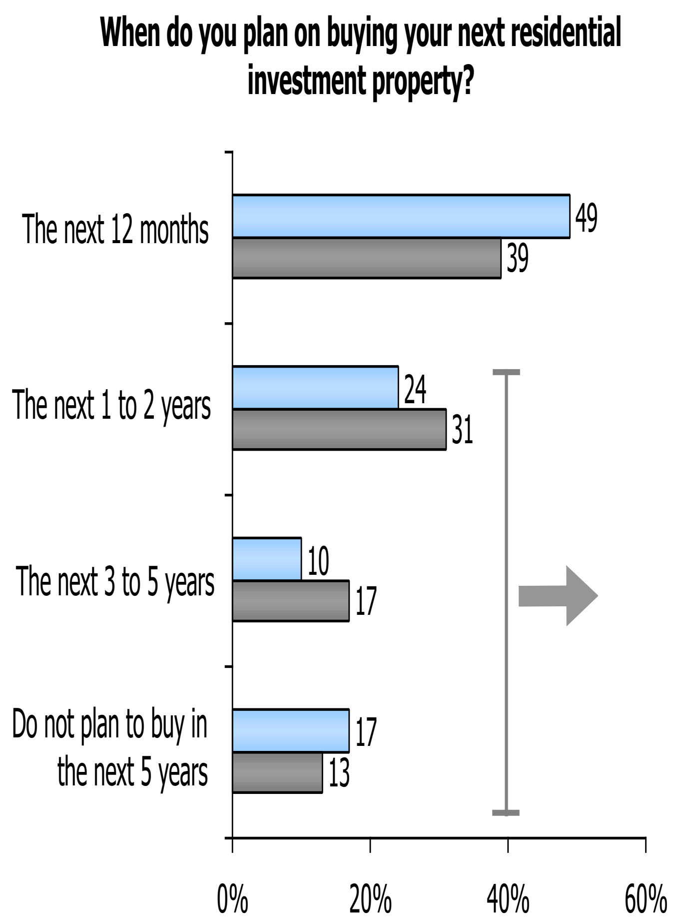
# Strategy for current properties

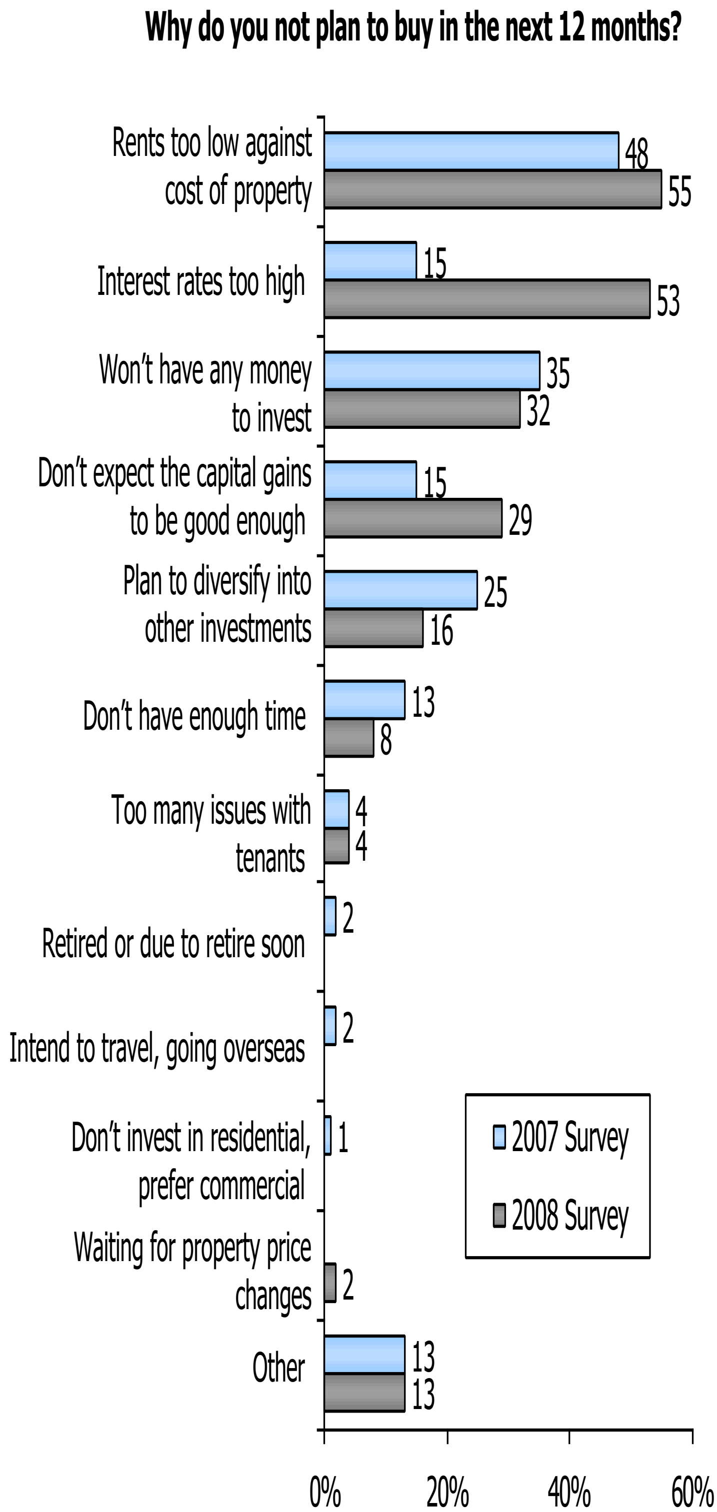
Investment strategies remain consistent with the 2007 survey, with most investors (90%) planning to hold their investment properties for the long term.




Source: Q12. Which of the following statements describes your strategy for your current properties? Base: All investors, excludes don't know and not answered (n = 426).

# Purchase intentions



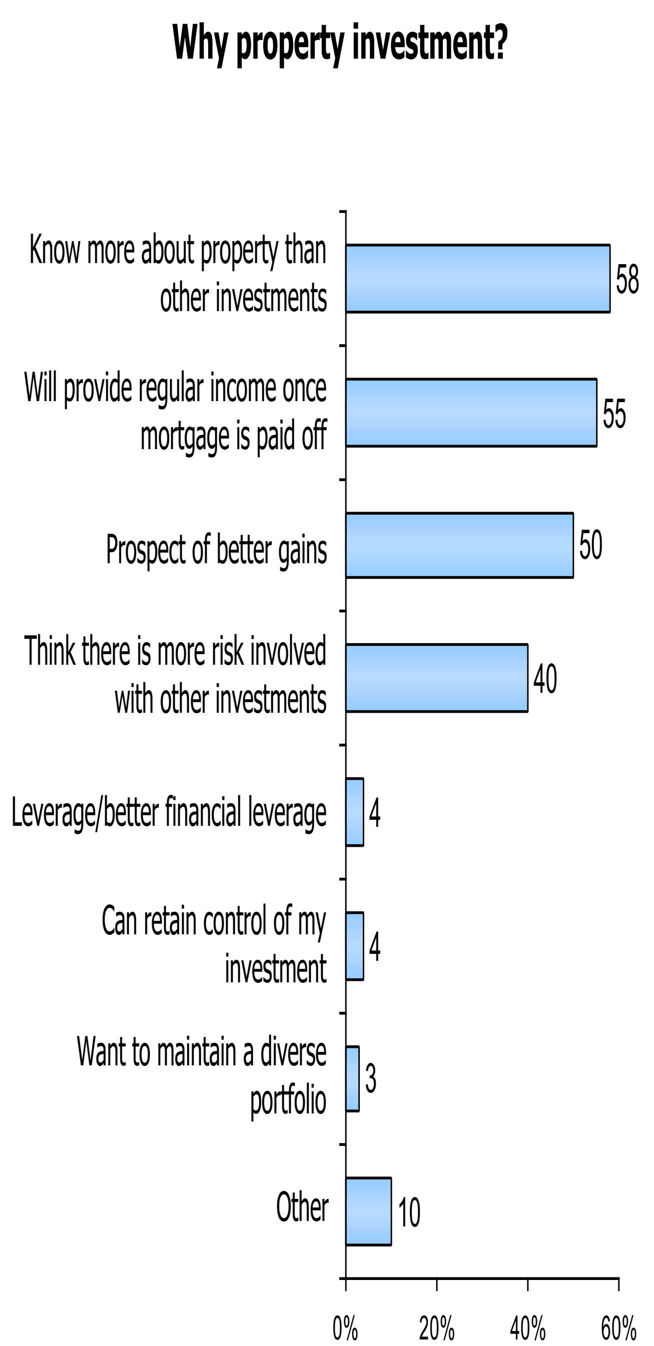




This year fewer investors indicate that they plan to buy in the next 12 months (there has been an increase of 10 percentage points, from 51% in 2007 to 61% this year).

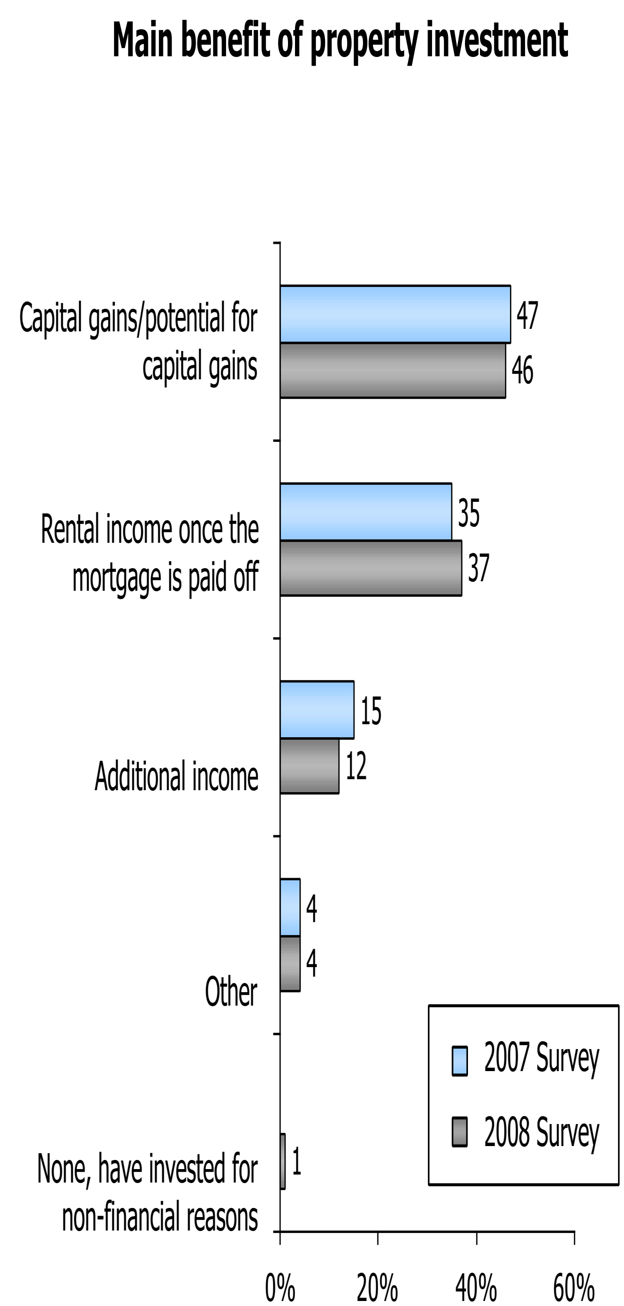
Key reasons for not purchasing are rents being too low against the cost of property (55%) and high interest rates (53%). Concern regarding interest rates is much more prominent this year.

Source: Q11a. Do you plan on buying your next residential investment property within...? Q11b. If you don't plan on buying in the next 12 months, please indicate why not. Base Q11a: All investors, excluding don't know and not answered (n = 422); Base Q11b. All investors who do not plan to buy a residential property in the next 12 months (n = 235). Excludes don't know and not answered.

# Perceived benefits of property investing

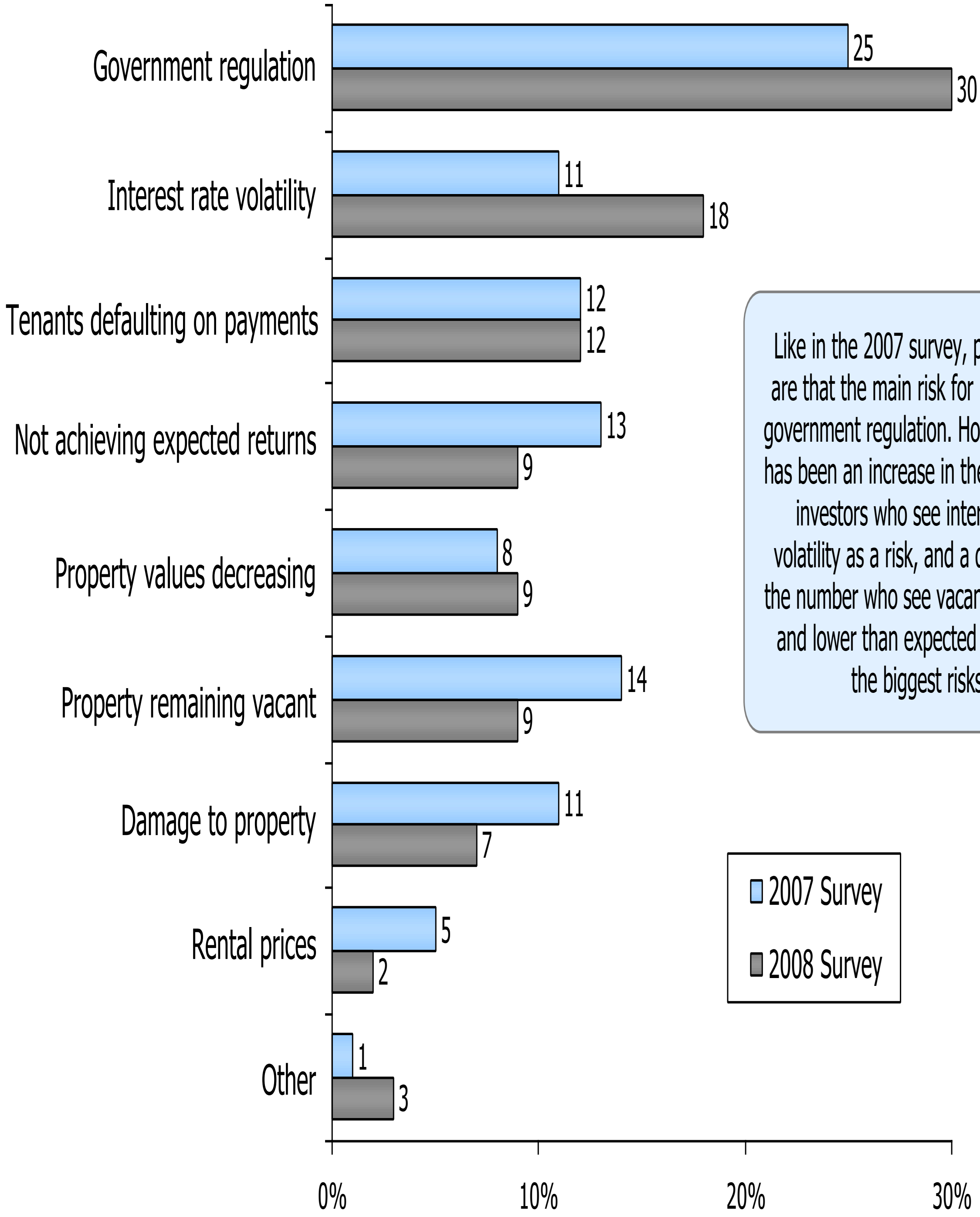



Source: Q14. For what reasons have you invested in property rather than other types of investment? Base Q14b: All investors, excludes don't know and not answered (n = 424).




Source: Q15. What is the main financial benefit you believe you will gain from investing in property? Base: All investors, excludes don't know and not answered (n = 425).

# Risks for property investors

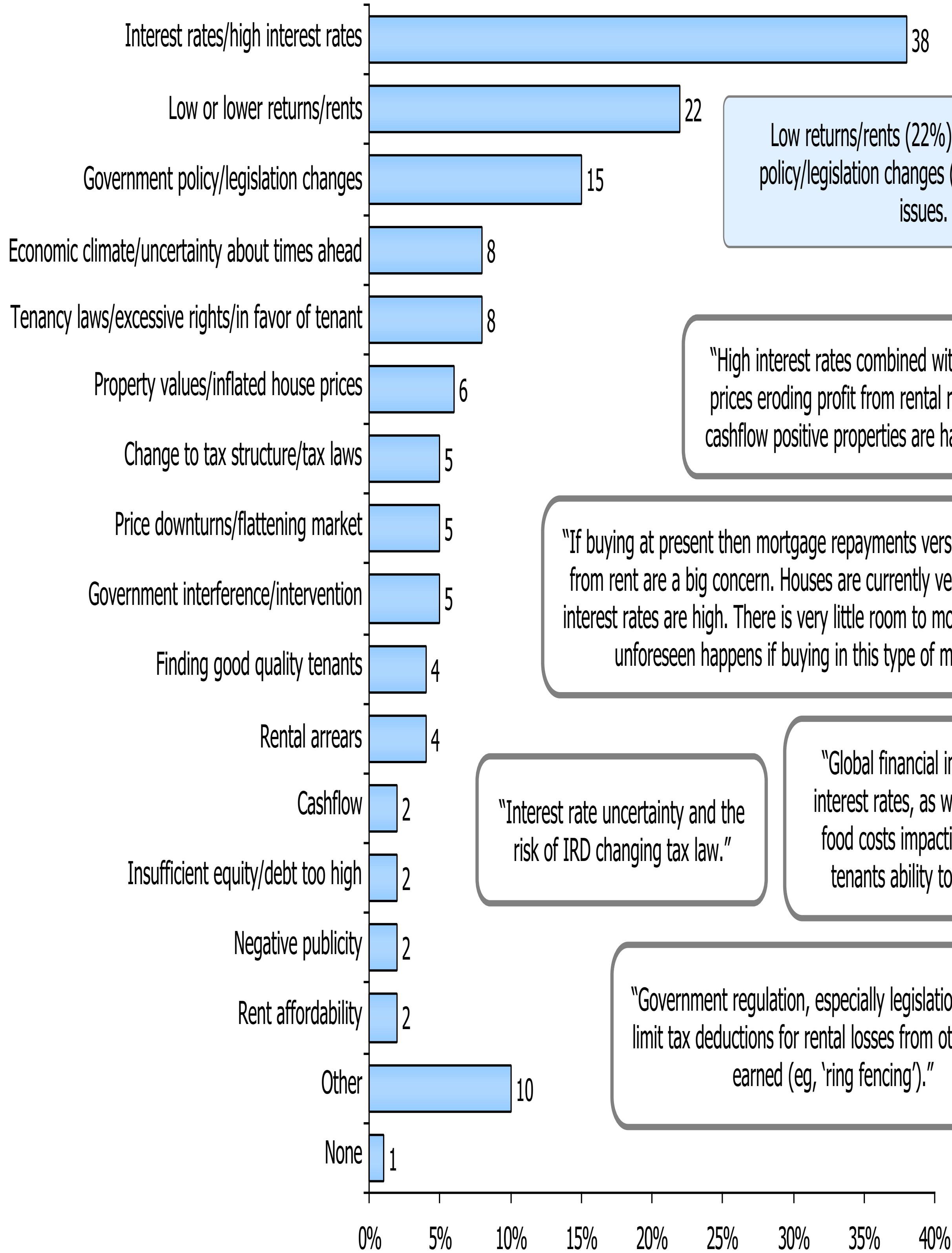



Like in the 2007 survey, perceptions are that the main risk for investors is government regulation. However there has been an increase in the number of investors who see interest rate volatility as a risk, and a decrease in the number who see vacant properties and lower than expected returns as the biggest risks.

Source: Q13a. What do you consider the biggest risk for property investment? Base: All investors, excludes don't know and not answered (n = 425).

# Issues for property investors

Interest rates are clearly a concern for investors this year, with 38% saying (unprompted) that this is currently a big issue for them.




Low returns/rents (22%) and government policy/legislation changes (15%) are also key issues.

"High interest rates combined with high property prices eroding profit from rental returns meaning cashflow positive properties are hard to come by."

"If buying at present then mortgage repayments versus the returns from rent are a big concern. Houses are currently very pricey and interest rates are high. There is very little room to move if anything unforeseen happens if buying in this type of market."

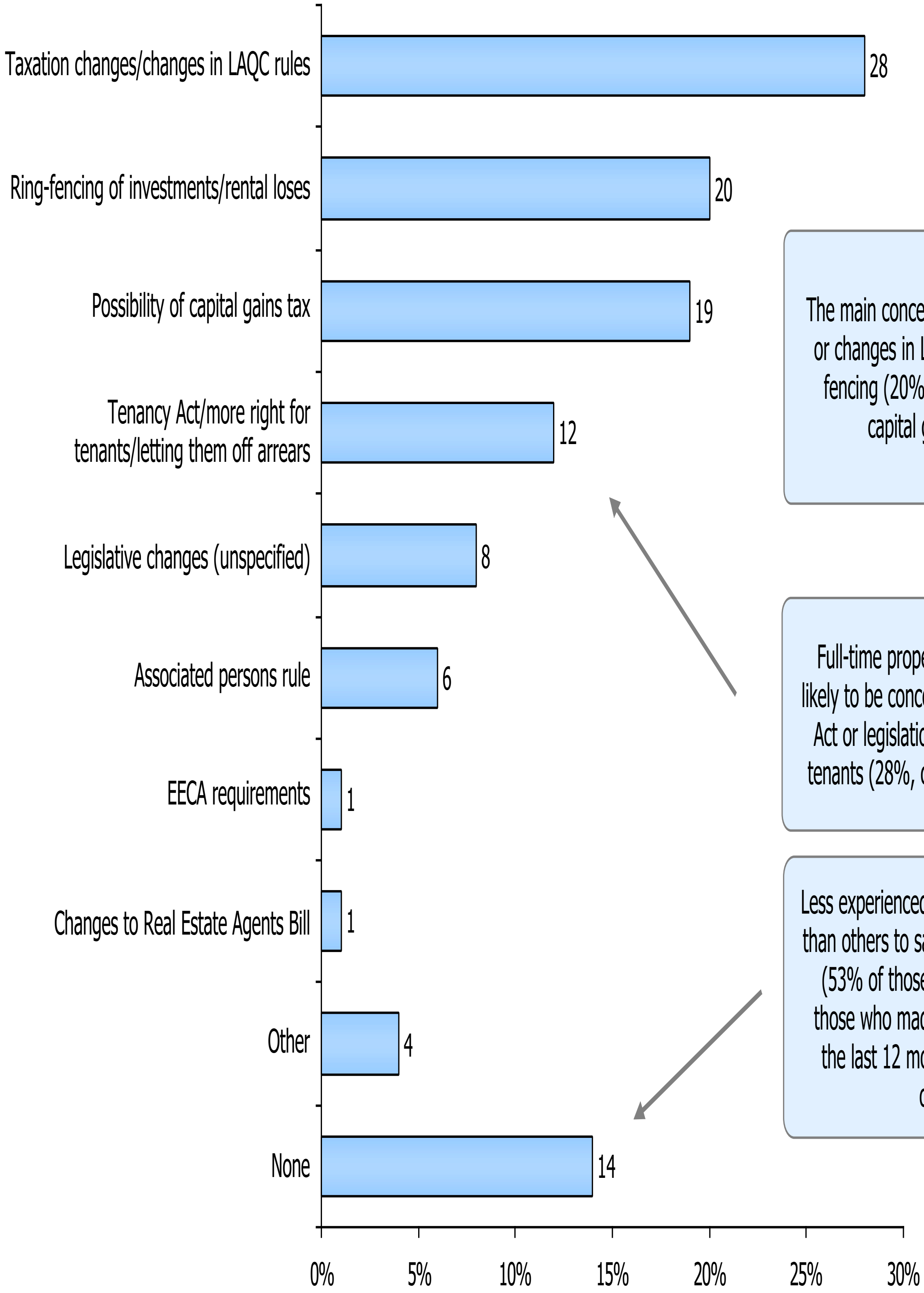
"Interest rate uncertainty and the risk of IRD changing tax law."

"Global financial instability forcing up interest rates, as well as rising fuel and food costs impacting on incomes and tenants ability to pay rising rents."

"Government regulation, especially legislation to end or limit tax deductions for rental losses from other income earned (eg, 'ring fencing')."

Source: Q13b. What do you currently consider to be the biggest issue for property investment? Base: All investors, excludes don't know and not answered (n = 393).

# Concerns with upcoming legislation changes




The main concerns are taxation changes or changes in LAQC rules (28%), ring-fencing (20%) and the possibility of capital gains tax (19%).

Full-time property investors are more likely to be concerned about the Tenancy Act or legislation giving more rights to tenants (28%, cf. 12% of all investors).

Less experienced investors are more likely than others to say they have no concerns (53% of those under 30 and 39% of those who made their first purchase in the last 12 months say they have no concerns).

Source: Q13c. What flagged legislation changes (if any) concerns you most? *Base: All investors, excludes don't know and not answered (n = 321).*


# Findings:
# Property management

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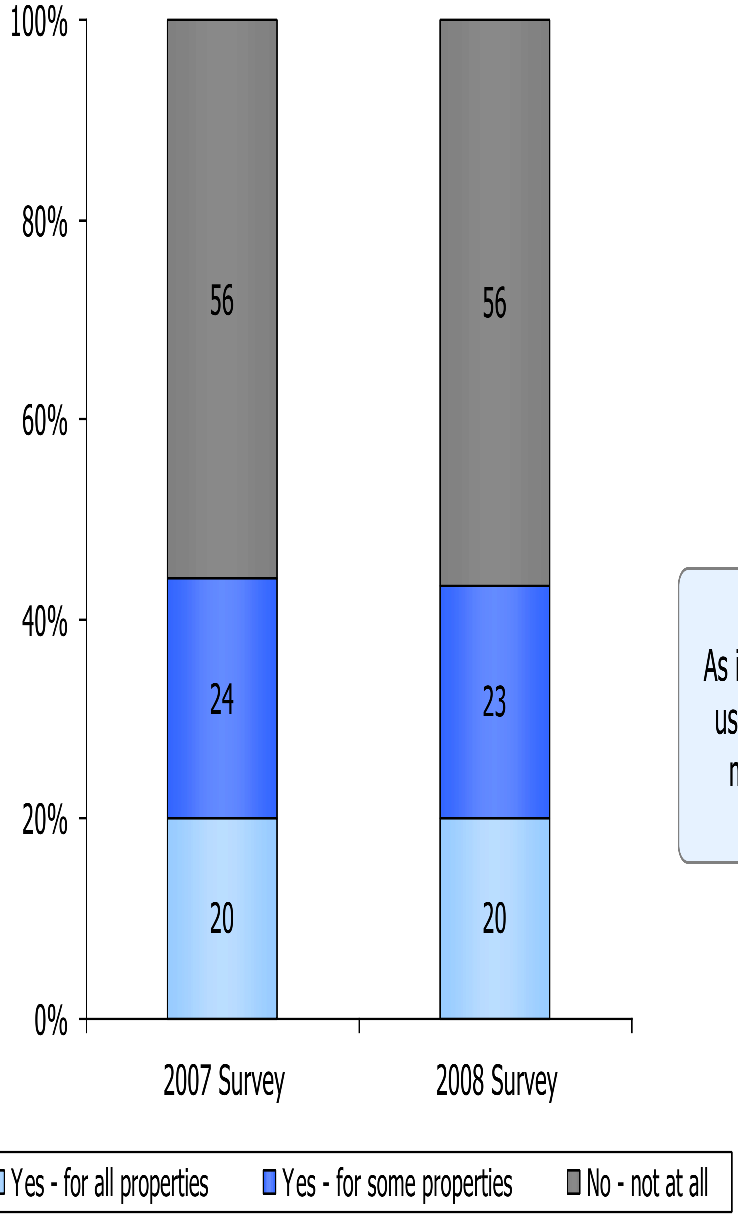
# Use of property manager/management company




As in 2007, 44% of investors use a property manager or management company.*

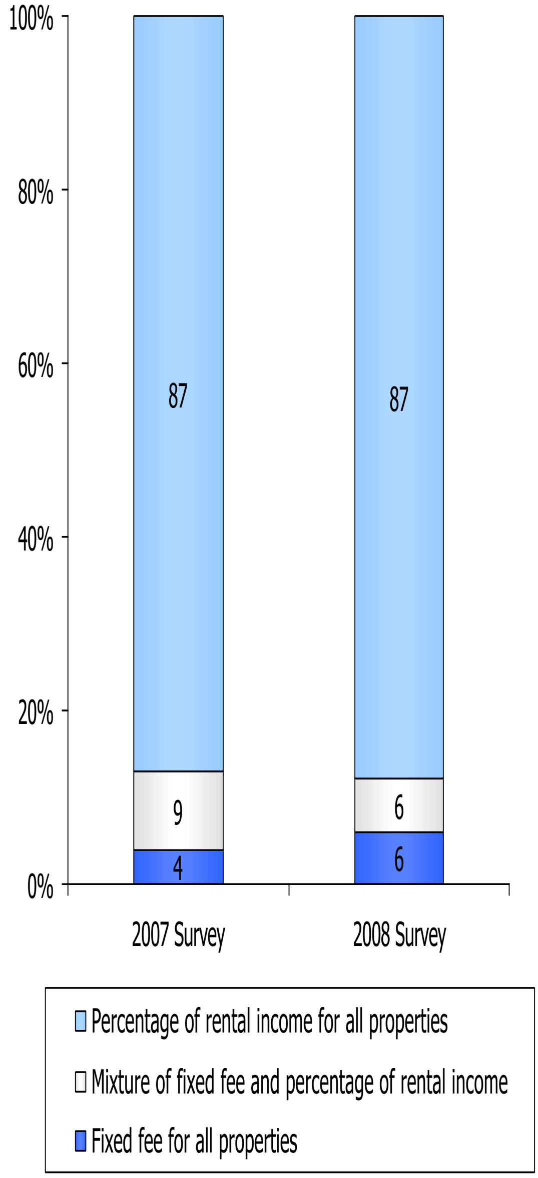
*Percentage adds to 44 due to rounding

Source: Q8a. Do you use an independent property manager/company to manage your properties? Base: All investors, excluding don't know and not answered (n = 428)

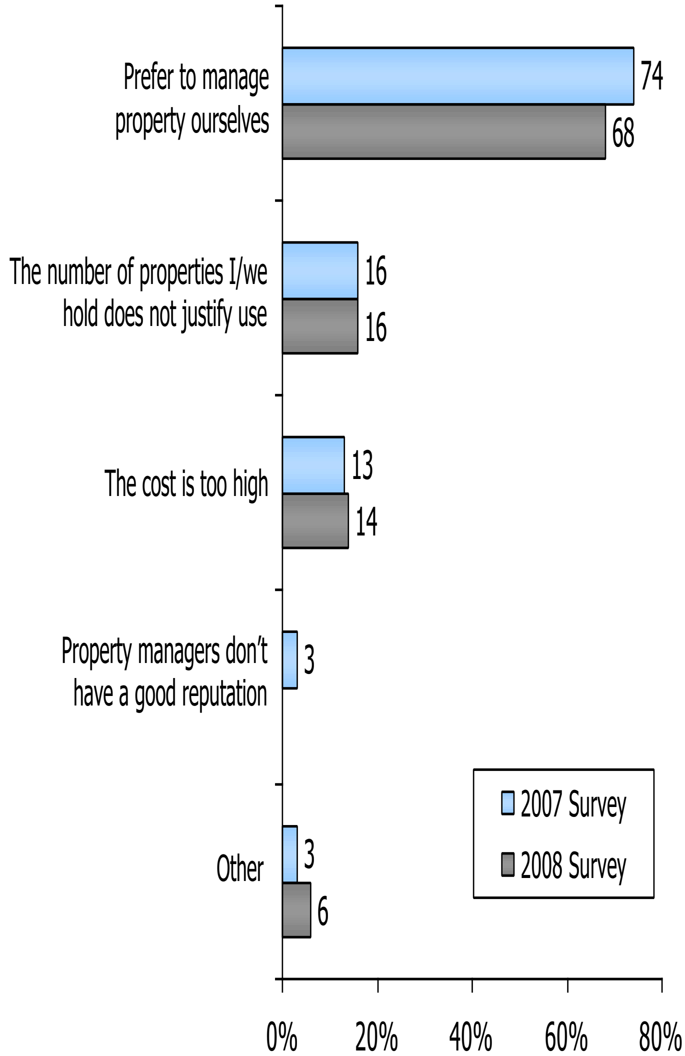
# Use of property manager/management company

## Method of payment / reasons for not using a property manager or company

### How do you pay your manager/company?




### Why don't you use a property manager/company?

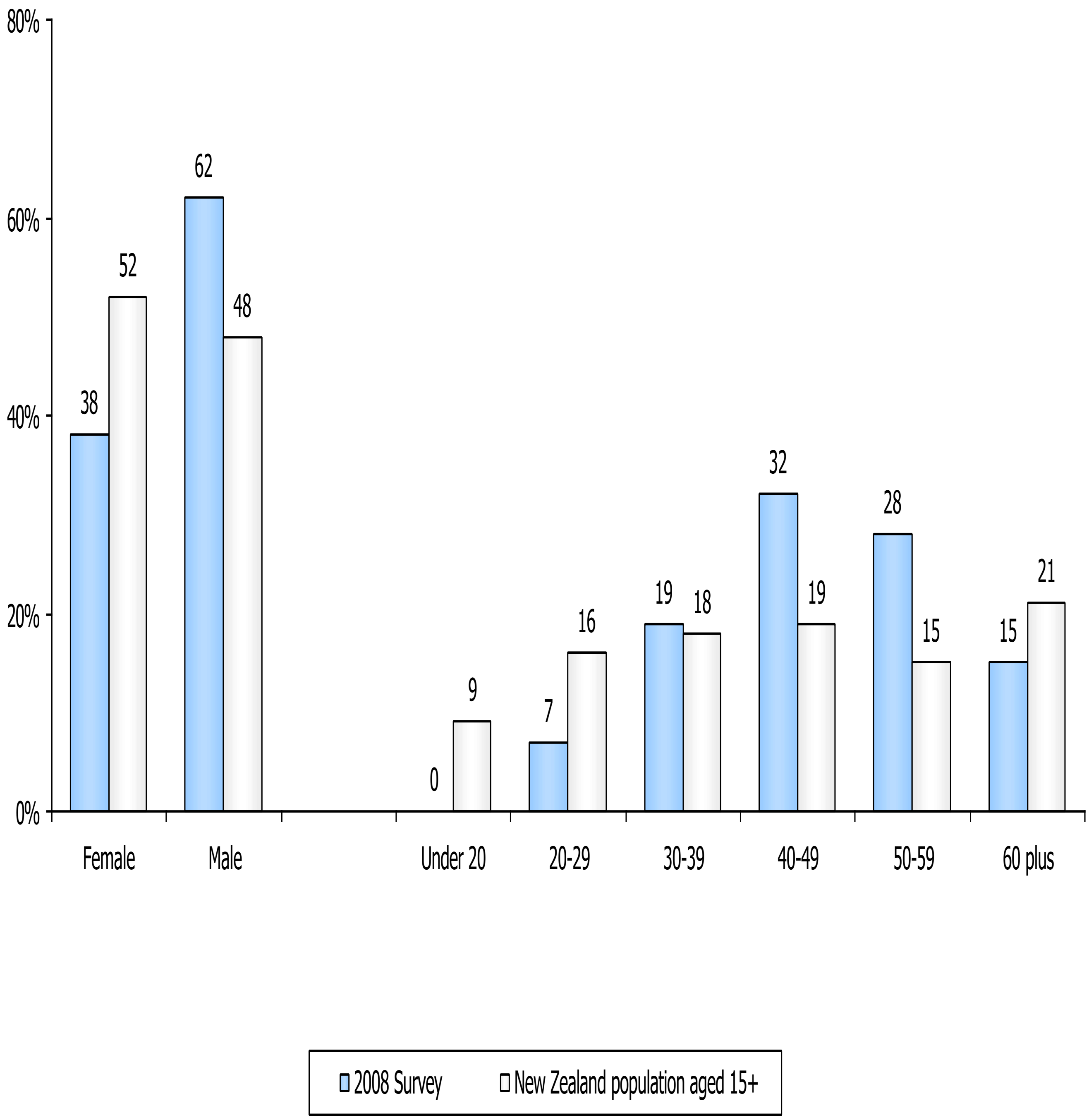



Source: Q8b. If property management used, how do you pay property management/ company? Base: Investors who use a property manager/company, excluding don't know and not answered (n = 187).

Source: Q8c. If property management not used, why do you not use a property manager? Base: Investors who do not use a property manager/company, excluding don't know and not answered (n = 238).


# Sample profiles

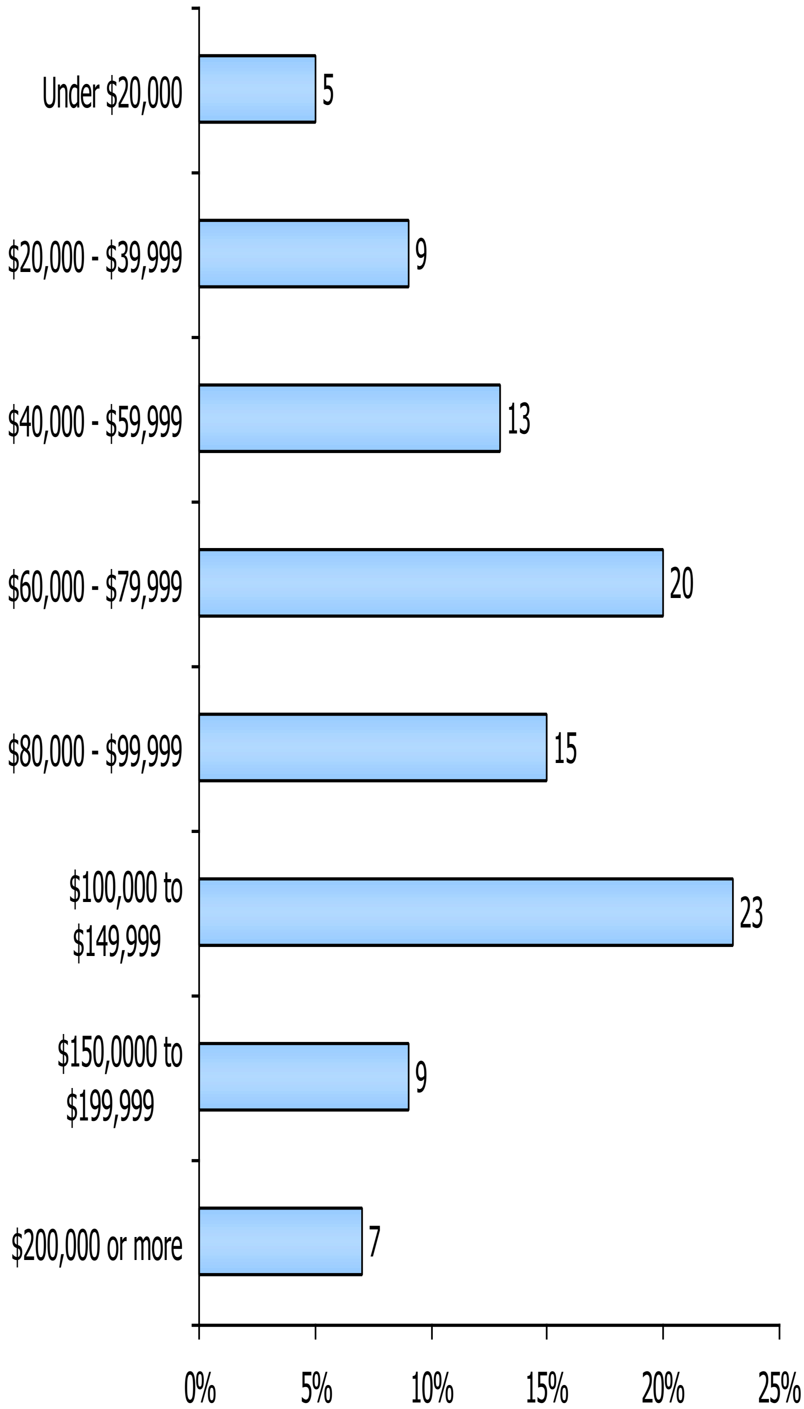
# Gender and age




Source: Q19. Which age group do you fall into? / Q20. Your gender. Base: All investors, excludes don't know and not answered (n Q19 = 428, n Q20 = 428). Percentages for the New Zealand population aged 15+ from the 2006 census.

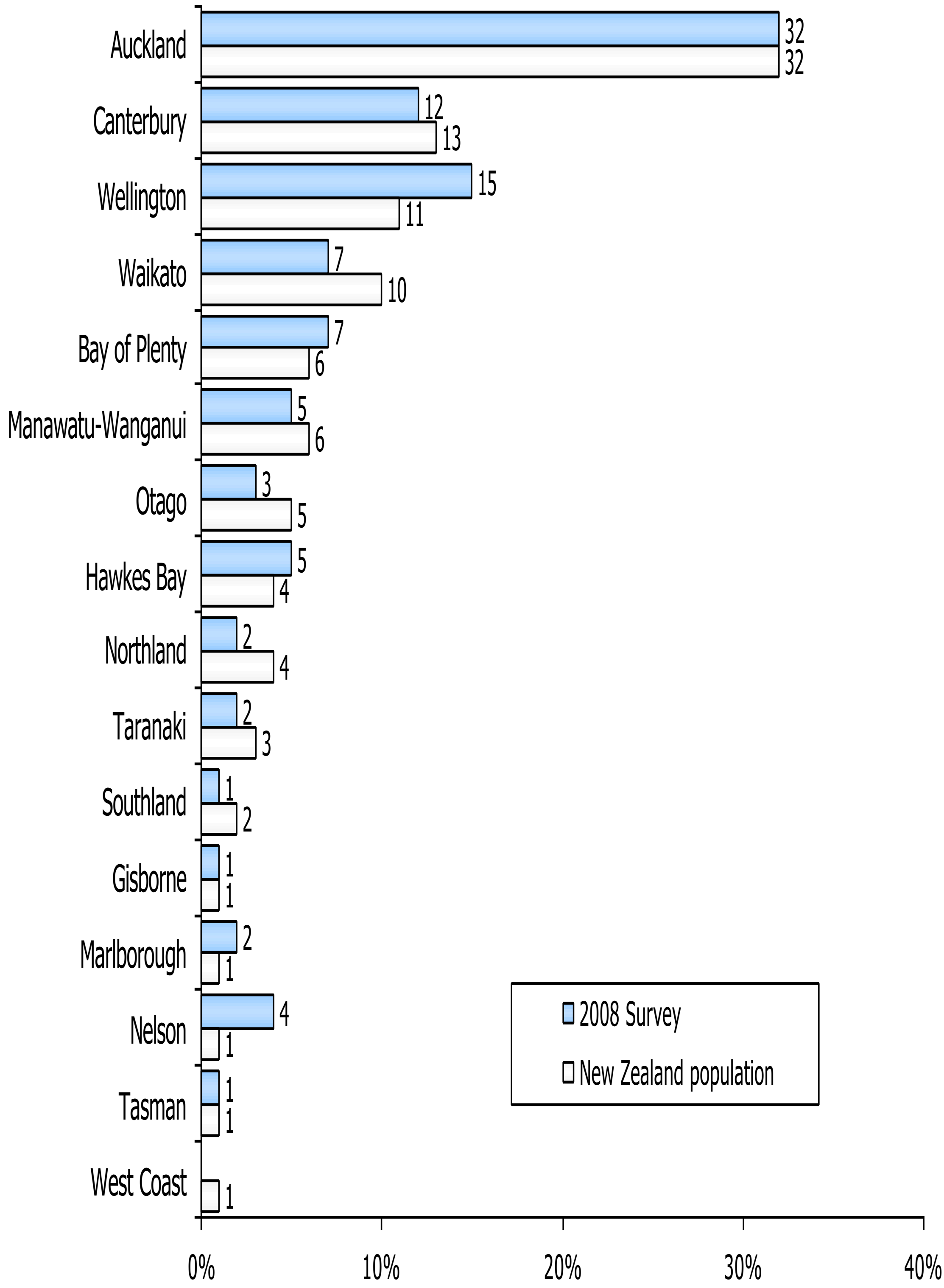
# Household income

## Excluding investment property income




Source: Q23. Into which group does your gross (before tax) annual household income fall (please exclude investment property income)? Base: All investors, excludes don't know and not answered (n Q23 =422).

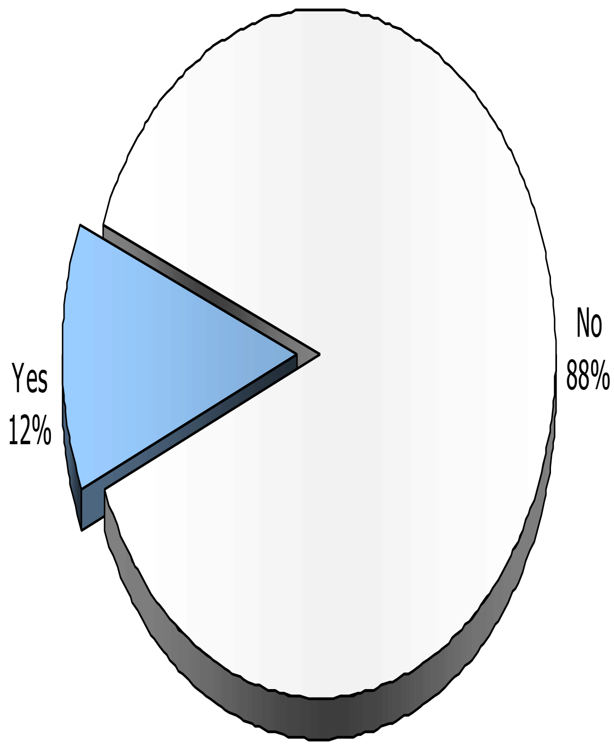
# Region of residence



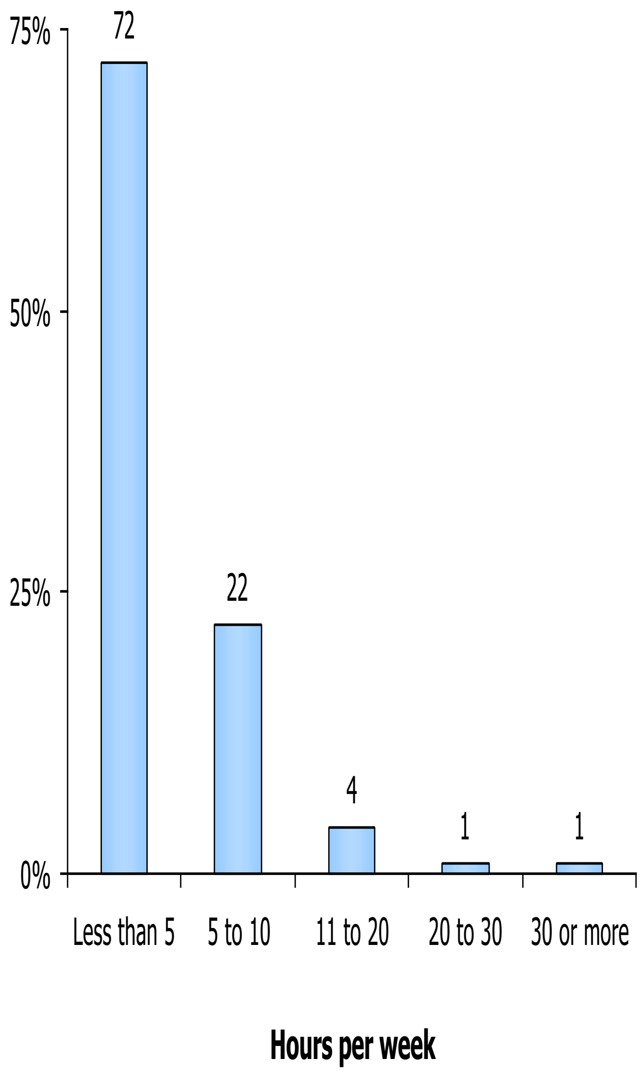

Source: Q21. Which region do you live in? Base: All respondents, excludes don't know and not answered (n=428). Regional New Zealand population percentages from the 2006 Census.

# Time spent managing property portfolio

**Do you consider yourself a full-time investor?**




**If not full-time, how many hours a week do you spend on your portfolio?**




Source: Q22a Do you consider yourself a full-time property investor? Base Q22a: All respondents, excludes don't know and not answered (n= 428).

Q22b. If you are not a full-time property investor, how many hours a week do you spend managing your portfolio? Base Q22b. All respondents who are not full time property investors, excludes don't know and not answered (n = 371).