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PROPERTY INSIGHTS

The Albany House, Apartment & Section Markets

EXECUTIVE SUMMARY

Signs on the side of the Northern Motorway advertising apartments for sale and for rent in Albany over the last couple of years have often caught our interest, so we finally packed our sandwiches and paid Albany a visit. While curiosity about the Albany apartment market triggered our visit, the most interesting insight was the significant number of spec houses advertised for sale.

The 23 February 2007 North Shore Property Press had a total of 120 ads for houses and apartments for Albany and Albany Heights, of which 38 or 32% were for brand new houses (only another 9% were for new apartments). And not just any houses. Most were in the \$600-800k bracket, compared to a median house price for the Albany District of \$554k.

Our research points to Albany facing a near-term oversupply situation in parts of the market (e.g. spec houses, probably sections, and apartments to some extent), but it is nothing like the sort of chronic oversupply evident in some coastal subdivision markets around the country. However, there will be strong employment growth in the area on the back of the likes of the Westfield shopping centre that will create plenty of demand in the lower-middle segment of the housing market, so any current oversupply in this part of the market should be absorbed relatively quickly (if the price is right and the supply matches market demand).



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The Albany apartment market as seen from the Northern Motorway

The advert for apartments to rent in the photo below has been greeting motorists for many months. For quite a while apartments in this area were being advertised with the first two weeks rent free. Having researched the Auckland apartment market and apartment markets in some other parts of the country, where developer/investor involvement has increased supply well ahead of current end-user demand, we could be forgiven for assuming Albany on the North Shore of Auckland was just another case in point.

Following a spec building boom the state of the rental market can be the best place to assess whether supply has run ahead of current demand. Based on the “evidence” of this picture - a picture tells 1,000 words and all that - we visited Albany expecting to find plenty of apartments in need of tenants.



Findings from our Albany fact finding mission

Discussions with people in the rental departments of three real estate agencies based in Albany village left us with the impression that there were not lots of apartments in search of tenants. The general theme was that when apartments came up for rent they went pretty quickly, with demand particularly from young couples and university students (Massey University has a sizable Albany campus).

With rents for many apartments ranging from \$250-350 per week, Albany seems to be in the affordable category for working couples, while there are lots of new jobs being created in the Albany area (see below). Our research on the Auckland housing market shows a noticeable flight towards more affordable suburbs and Albany would seem to fit into this category on the apartment front (e.g. working couples who used to be able to buy three bedroom houses but now can't afford them are buying two bedroom apartments instead).

On searching www.trademe.co.nz we found 18 apartments currently advertised for rent in Albany, with 15 of the 18 available for immediate occupation. Having 83% of the apartments advertised for rent vacant at the time of advertising rings some warning bells, but having 18 apartments for rent is hardly evidence of a glut, especially when compared to the 186 currently advertised for downtown Auckland City.

We also found that the real estate agents only had a moderate number of apartments available to buy and we were told that demand was good. The North Shore Property Press of 23 February contained 23 apartments advertised for sale, of which 11 were brand new and 12 were pre-loved apartments. There was a flavour of investors trying to get out of the market, but this number was not too different from what we expected given what the real estate agents told us (although Law No.1 of property research comes to mind: be cautious about what real estate agents tell you until you can verify it independently!).

By way of independent verification we did a web-search and found 50 Albany apartment-for-sale ads on www.trademe.co.nz and 72 on www.realestate.co.nz. We found headings on ads like, “Definitely priced to sell!!!”, “Investors Alert – PRICE SLASHED” and “Vendor Tied up in Knots – Say Sell Now!!!”. Consistent with there not being a glut of apartments advertised for rent, quite a few of the apartments advertised for sale had current tenants and in general rental yields appeared to be around 5%. This is OK if you expect to get a top-up from capital gains, but the urgency of some vendors and the significant number of apartments advertised for sale on the websites suggests the days of easy capital gains are a thing of the past.

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The unexpected insight from our Albany visit – the spec house market

While curiosity about the Albany apartment market triggered our visit, the most interesting insight was the significant number of spec houses advertised for sale. In the 23 February 2007 North Shore Property Press we counted a total of 120 ads for houses and apartments for Albany and Albany Heights (not counting the 11 ads for lifestyle properties). While only 11 of these ads were for new apartments, 38 or 32% were for brand new houses. And not just any houses. Most were in the \$600-800k bracket, compared to a median house price for the Albany District of \$554k over the last year (based on REINZ data). This included seven houses still under construction, but does not include the 32 house and section packages advertised for sale at Quail Rise (\$565-790k), nor the 21 homes planned for Albany Gardens (\$468-518k).

When new apartments are included, 41% of the houses or apartments advertised for sale in Albany in the Property Press were new. This sort of percentage is consistent with a market facing something of an oversupply issue, especially when it seems reasonable to assume that the builders-developers were hoping to sell before completion. Based on an average price of \$650k for the houses and \$350k for the apartments, this represents \$28.6m of real estate or around \$22m of section and building costs assuming expected margins of a touch over 20%. A sizeable proportion of this \$22m will be borrowed money, with interest costs likely to be starting to burn a hole in some pockets.

There is also something going on in the Albany section market

Much of our property research focuses on the section market, mainly because this is the area where the biggest excesses are being experienced during the current property boom. In Albany's case we found only seven residential sections and three lifestyle blocks advertised for sale in the Property Press, although the Property Press generally understates the number of properties for sale, especially for sections. We found 115 section-for-sale ads on www.realestate.co.nz for Albany, with the photo below giving some idea of the sort of subdivision activity happening in the area. It would seem that the area has plenty of sections available for immediate demand and possibly a bit to spare.



Job creation is steaming ahead in the Albany area

There is the potential for strong growth in demand for houses, apartments and sections in the area based on development activity that will create many more permanent jobs. So while we believe Albany faces a near-term oversupply situation in parts of the market (e.g. spec houses, probably sections, and apartments to some extent), it is nothing like the sort of chronic oversupply evident in some coastal subdivision markets around the country.

While far from the only development in the area, Westfield's Albany centre is the largest and will create many jobs, especially of the sort that will create demand at the lower-middle end of the residential market (see the photo on the next page, with earthworks well underway on the site).

The newish Albany Park & Ride is also well patronised, with the car park already often near full and some apartment developments only a stones-throw away. The new bus lanes on the Northern Motorway will add to the attraction of Albany as a base for Auckland Central City workers.

But, consistent with most good stories, Albany has attracted some irrational exuberance warranting a few words of caution to would-be residential property and section investors, to financiers and to some other



groups with vested interest in the local property market.



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