



Housing and Business Market Indicators Quarterly Monitoring Report

Meeting the requirements of the National Policy Statement on Urban
Development Capacity (PB6 and PB7)

Q3 September 2018

1. FUTURE PROOF MARKET INDICATORS SUMMARY

Residential indicators

The Future Proof sub-region has continued to experience a slowdown in the rate of house price growth in the September quarter of 2018. Rents have continued to increase steadily. While the proportion of market activity by Multiple Property Owners has increased in the September quarter 2018 the proportion of activity from first home buyers in Hamilton City remains at a high level. These trends suggest that first home buyers have continued to find it easier to access the market in the quarter to September 2018. Housing and rental affordability remain at a similar level.

Residential consents numbers remain elevated and population estimates suggest that growth (demand) may be slowing. While the indicators suggest that conditions in the housing market may be improving across the Future Proof sub region, further supply responsiveness may be constrained by a number of factors including labour, cost pressures and credit availability.

Business indicators

The latest vacancy reports for the Hamilton City industrial vacancy rates remain tight. Work on enabling further industrial land supply continues. No further updates on central business district (CBD) office vacancy rates retail vacancies are available this quarter noting that capacity supply issues are not expected.



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2. INTRODUCTION

The National Policy Statement on Urban Development Capacity (NPS-UDC) came into effect on 1 December 2016. The overarching purpose of the NPS-UDC is to ensure that planning enables development by providing sufficient development capacity for housing and businesses over the next 10 to 30 years. The NPS-UDC identifies the Future Proof sub-region¹ as a high-growth urban area. As such, the Future Proof councils are required to meet all the requirements in the NPS-UDC. This includes monitoring, and reporting, on a quarterly basis of the housing and business market indicators (PB6) and indicators of price efficiency (PB7). Other demand and supply drivers outside of the scope of NPS-UDC monitoring that impact on urban development include: natural population growth; strong migration; interest rates; investor confidence and activity; tax incentives; and low measured construction productivity².

3. PURPOSE OF REPORT

The purpose of this quarterly monitoring report from the Future Proof partners is to fulfil the requirements of PB6 and PB7 of the NPS-UDC. These policies direct local authorities to monitor a range of indicators on a quarterly basis to ensure that local authorities are well informed with timely information about demand, urban development activity, how well the market is functioning and how market changes may affect the sufficiency of development capacity for housing and business land in the Future Proof sub-region. The NPS-UDC encourages local authorities to publish the results of their monitoring. This report includes the following PB6 market indicators:

- a. Prices and rents for housing, residential land and business land by location and type; and changes in these prices and rents over time,
- b. The number of resource consents and building consents granted for urban development relative to the growth in population; and
- c. Housing affordability indicators.

PB7 requires the use of indicators of price efficiency in the local land development market to understand how well the market is functioning and how planning rules may affect this, and when additional development capacity might be needed. This report presents the following PB7 price efficiency indicators which have been made available to date by MBIE³:

- a. Price-cost ratio, and
- b. Price differentials between zones.

4. OUTLINE OF REPORT

The indicators described in this second indicator report are presented in two broad categories; residential and business. Eight residential and three business indicators are presented. An overview narrative is provided at the start of each section with some further commentary provided for each indicator. Where available, indicators include data for each territorial authority (Hamilton City Council, Waikato District Council and Waipa District Council), and for the combined Future Proof sub-region ('Greater Hamilton').

Technical notes and data sources are provided at the end of the report. Ongoing refinements to the reporting framework and indicators will be made in successive quarterly reports.

¹ The combined Hamilton City Council, Waikato District Council and Waipa District Council geographic area.

² Auckland Chief Economist, June 2017

³ The Ministry of Business, Innovation and Employment are responsible for providing the key NPS-UDC indicators.

5. RESIDENTIAL INDICATORS

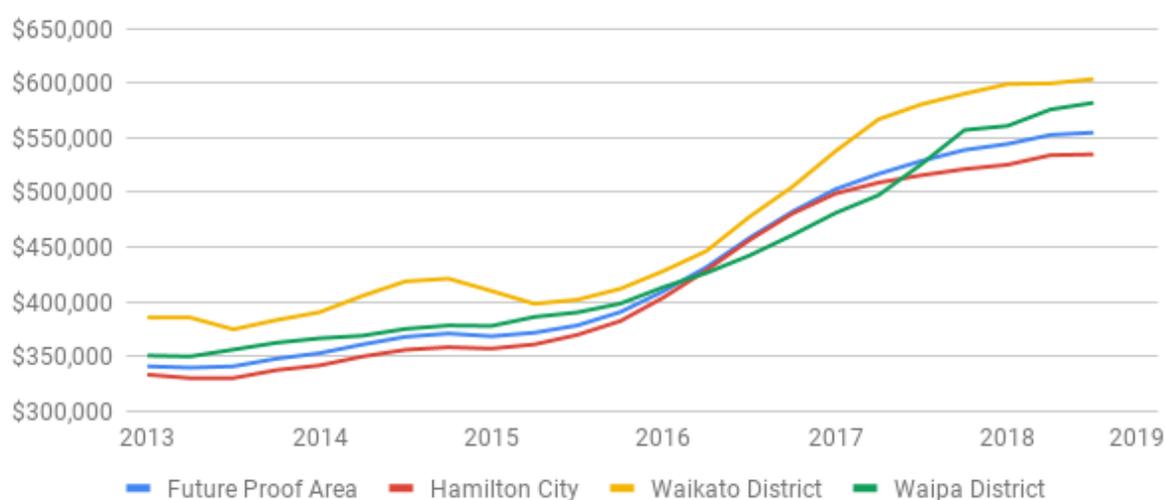
The Future Proof sub-region has continued to experience a slowdown in the rate of house price growth in the September quarter of 2018. Rents have continued to increase steadily. While the proportion of market activity by Multiple Property Owners has increased in the June quarter 2018 the proportion of activity from first home buyers in Hamilton City remains at a high level. These trends suggest that first home buyers have continued to find it easier to access the market in the quarter to September 2018. Housing and rental affordability remain at a similar level.

Residential consents numbers remain elevated and population estimates suggest that growth (demand) may be slowing. While the indicators suggest that conditions in the housing market may be improving across the Future Proof sub region, further supply responsiveness may be constrained by a number of factors including labour, cost pressures and credit availability.

5.1 DWELLING SALE PRICE AND RENT TRENDS

Indicator 1: Dwelling sales prices (actual)

12-month rolling average Dwelling sales price (actual)

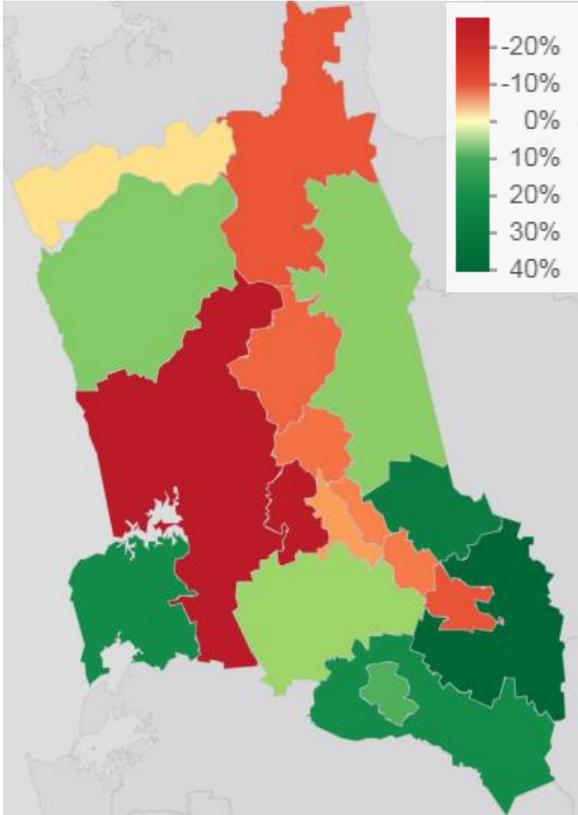


After the recent period of rapid price increases (between 2015 and 2017) house price growth across the Future Proof sub-region appears to have stabilised further with a more moderate overall rate of price growth evident over the last four quarters to September 2018. The Waikato District has seen comparatively stronger house price growth over the three years to December 2017, with a moderate increase in sales prices in the last three quarters to September 2018.

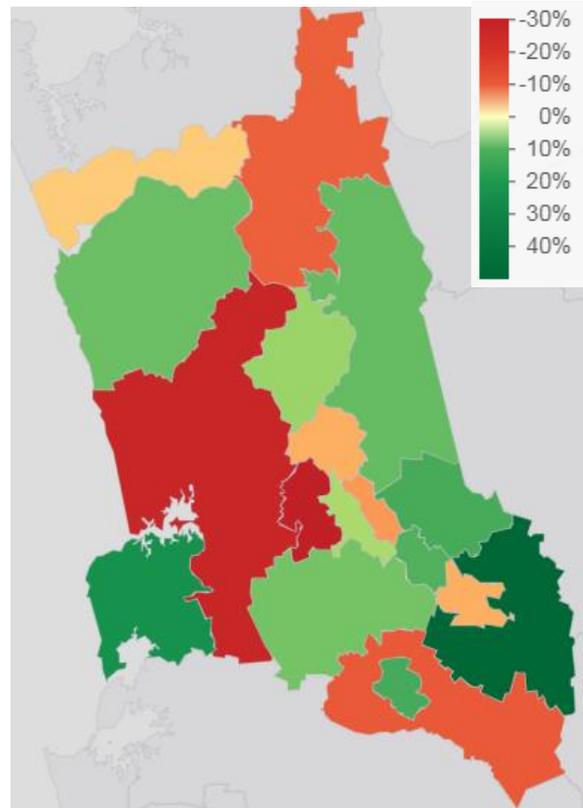
Throughout the period of rapid price increases (between 2015 and 2017) the average dwelling sales price in the Waipa District fell below the sub regional and Hamilton average. The average dwelling sale price in the Waipa District has now returned to a position above the sub regional average and has seen a further moderate increase in prices in the September '18 quarter. Sales prices in Hamilton City have largely plateaued in the in the quarter to September 2018.

	Sept '17 (Q3)	June '18 (Q2)	Sept '18 (Q3)
Future Proof Area	\$528,875	\$552,625	\$5554,750
Hamilton City	\$515,750	\$534,125	\$534,875
Waikato District	\$580,625	\$599,688	\$603,688
Waipa District	\$525,875	\$575,875	\$582,000

Indicator 2: Change in dwelling sale price



Quarterly change: June '18 to Sept '18



Annual change: Sept '17 to Sept '18

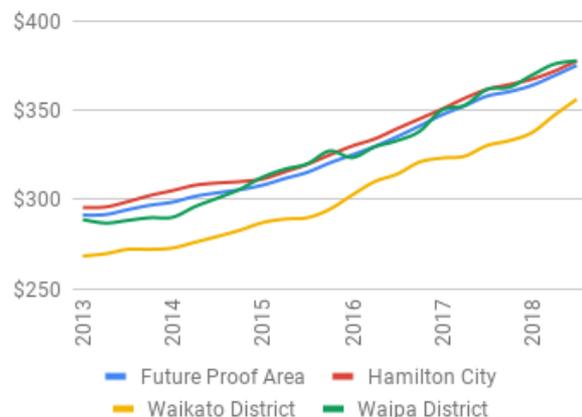
The two maps above display the change in dwellings sale price by ward for the year between September 2007 and September 2008 (on the right) and the change between the June quarter and September quarter 2018 (on the left).

Looking at the percentage change in dwellings sales price across the sub region in the quarter between the June 2018 and September 2018 dwelling reveals that sales prices decreases where concentrated in the urban wards whereas price increases occurred in the rural wards. The pattern of house sales price change across the year between September 2017 and September 2018 is more mixed with both price increases and decreases across the urban and rural areas of the subregion.

Indicator 3: Dwelling rents (actual)

The trend of steady quarterly increases in mean weekly rents continued across the sub region in the September quarter 2018. Higher rates of mean weekly rents have continued in Hamilton City and the Waipa District whereas mean weekly rents in the Waikato District remain at a comparably lower level. The mean weekly rent in the Future Proof sub-region in the March quarter 2018 was \$375, Hamilton City was \$378, Waikato District was \$356 and the Waipa District was \$378.

12-month rolling average Dwelling Rents (actual)



5.2 HOUSING AFFORDABILITY TRENDS

The experimental MBIE housing affordability measure (HAM) has now been updated to March 2018. These measures of the affordability of renting and home ownership are provided below alongside the most recent Infometrics September 2018 quarter affordability indicators.

Indicator 4: Housing Affordability

The Infometrics housing affordability indicator (a ratio of the average current house value to estimated average annual earnings) indicates a period of increasing unaffordability from early 2015 to late 2016. Since then the levels of housing affordability have remained largely unchanged apart from a small increase in unaffordability in the last quarter. In the September quarter the Waikato District also experienced a small decrease of affordability where as Waipa District had a small improvement in affordability.

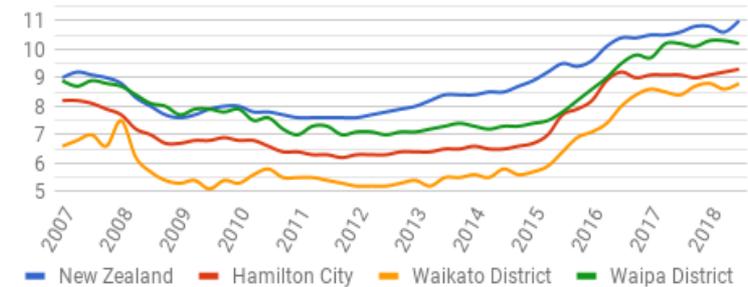
The MBIE housing affordability measure (which draws on actual household incomes) confirms that housing affordability generally declined between March 2016 and March 2018. By this measure potential house purchases in the Waipa District are generally in a better position when compared with Waikato District and Hamilton City, largely due to higher incomes amongst potential first home buyers resident in the district.

Indicator 5: Rental Affordability

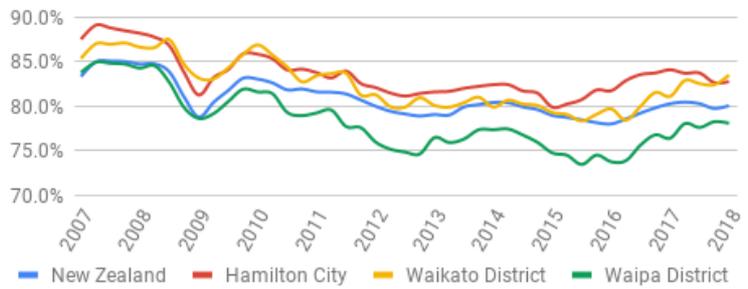
The Infometrics rental affordability measure presents a ratio of average weekly rents over average weekly incomes. A higher ratio, suggests that average rents cost a greater multiple of typical incomes, which indicates lower rental affordability. This measure suggests that rental affordability has generally declined across the sub-region since March 2013. Hamilton has seen rental affordability stabilise over the year to September 2018.

The HAM Rent, which draws on the actual household incomes of renters, suggests that renting has become more affordable over between March '13 and March '18. Rather than suggesting improved rental affordability this may reflect an increase in households with higher incomes continuing to rent rather than transitioning to purchasing a dwelling as suggested by the Housing indicators above.

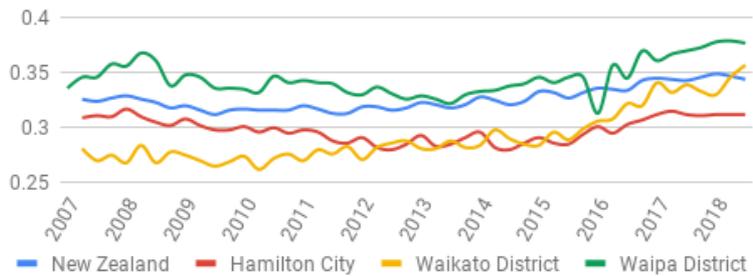
Housing Affordability: Quarterly to September 2018 (Infometrics)



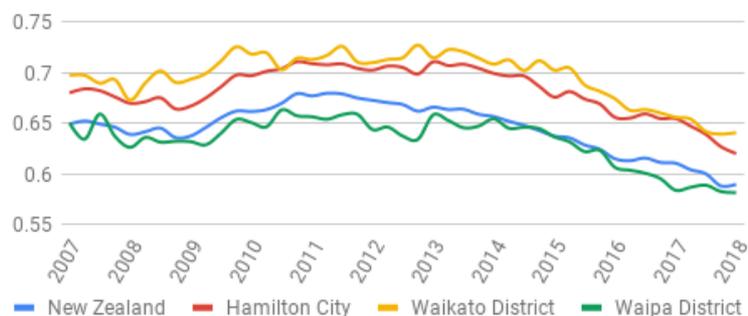
HAM Buy: Share of first home buyer households with less than above average left over income after housing costs



Rental Affordability: Quarterly to September 2018 (Infometrics)



HAM Rent: Rental households with less than above average leftover income after housing costs

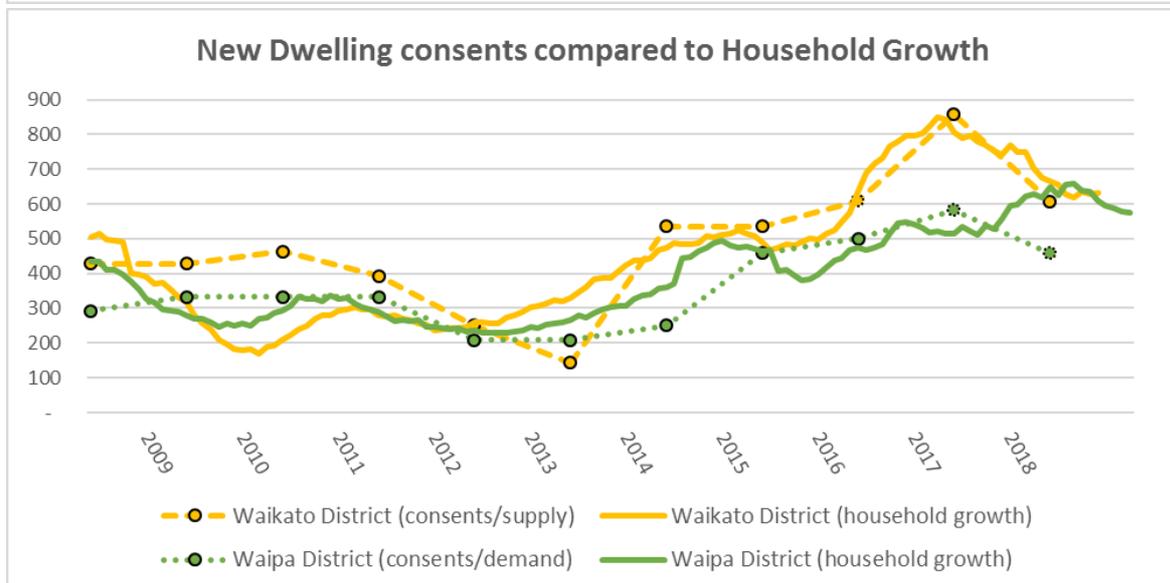
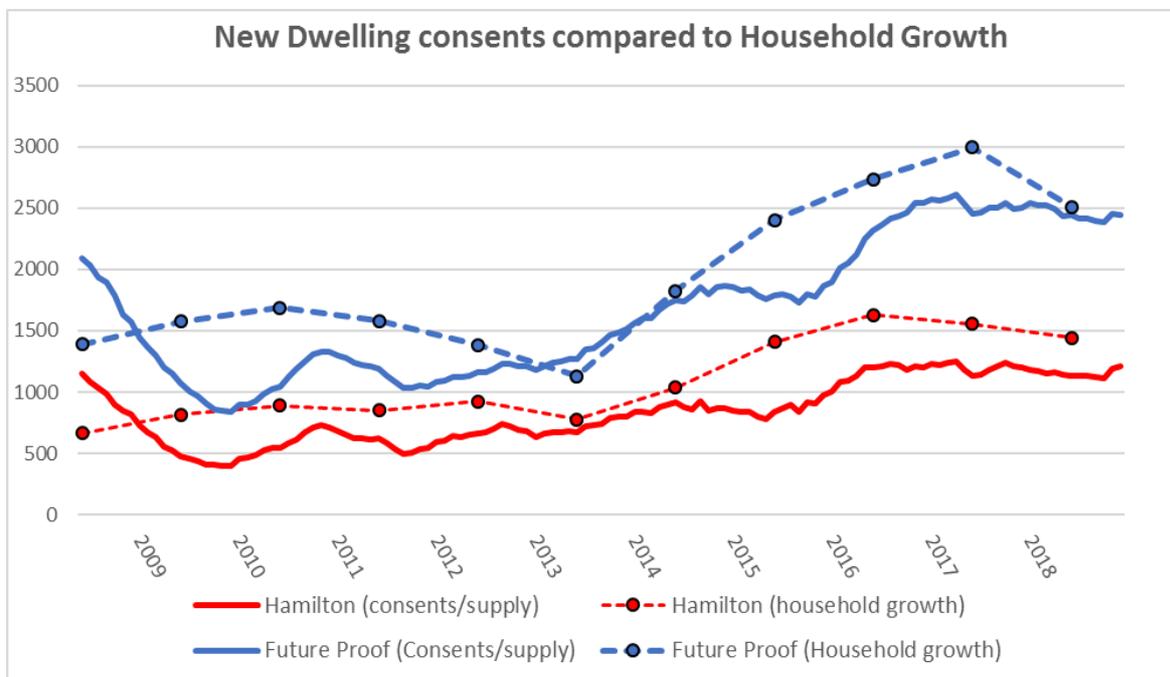


5.3 INDICATORS OF SUPPLY AND DEMAND

Indicator 6: New dwelling consents compared to household growth (updated)

The graphs below provide a rough indication of the movement of two proxies for the demand and supply for new residential dwellings, and the potential gap between the two indicators. These graphs have now been updated to include the latest population (demand) estimate to June 2018 and the number of dwelling consents (supply) to December 2018, which are lagged by six months to account for average construction time.

The first graph shows that the sub-region, between 2013 and 2018, experienced strong growth in the number of households. The latest population estimate now suggests that the rate of household growth is beginning to decline. Consenting activity has increased across the sub region since 2013, however since 2017 the number of consents have largely plateaued in Hamilton, continued to increase in Waipa and declined more recently in Waikato. Currently, a shortfall in supply is still suggested for the sub-region, however should consent levels remain elevated and population growth continue to slow, the supply outlook should continue to improve. A range of market factors, including constraints in the residential construction sector, may also contribute to a local shortfall in the supply of new houses.



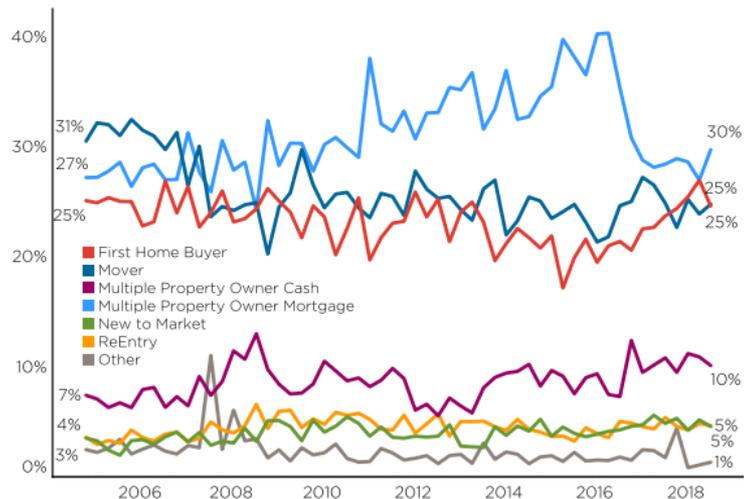
Indicator 7: Buyer classification- Hamilton

The examination of buyer activity, to December 2018, is focused on Hamilton as data for Waikato and Waipa was not available for inclusion in this monitoring report.

The decline in market activity by Multiple Property Owners (with mortgages) has recovered a little in the last quarter (December), increasing to 30% of market activity. As observed in previous monitoring reports the surge in multiple property owner activity in Hamilton, that took place over the over the last five years, was largely driven by Auckland multiple property owners.

First home buyer activity, which had increased steadily over the last two years since 2016, has seen a small decline to 25% of market activity in the quarter to December 2018. Corelogic has previously commented that this is likely due to first home buyer finding less competition in the market due to tougher lending criteria affecting investors' desire and ability to buy.

Buyer Classification - Hamilton (% of sales)

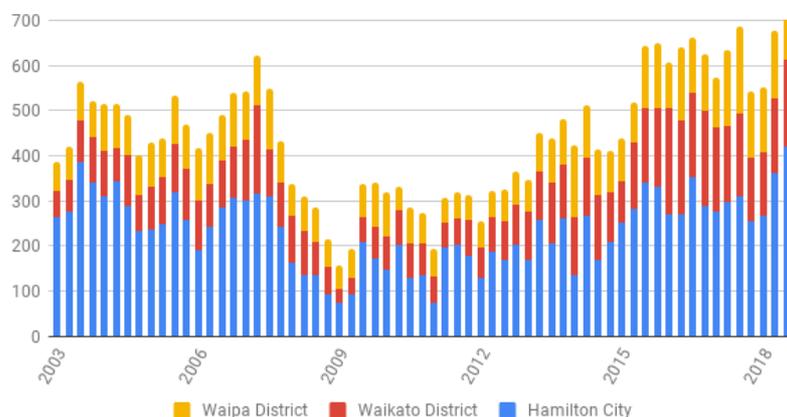


Indicator 8: Residential Building consents by territorial authority

The number of new dwellings consents issued in the sub region in the last quarter (September 2018) are up when compared with the previous two quarters. While the total number of consent numbers for the sub region remain at elevated levels, this is largely due to the high level of consents issued by Hamilton City in the last quarter.

Hamilton residential consents numbers remain elevated, with high numbers for more intensive types of residential development (as opposed to detached, or standalone houses). Waipa District, when compared with Waikato District, has also continued to see greater numbers of the intensive dwelling category in the September 2018 quarter.

Building Consents by TA (Quarterly to September 2018)



6. BUSINESS INDICATORS

The latest vacancy reports for the Hamilton City industrial vacancy rates remain tight. Work on enabling further industrial land supply continues. No further updates on central business district (CBD) office vacancy rates retail vacancies are available this quarter noting, that capacity supply issues are not expected.

6.1 INDICATORS OF SUPPLY AND DEMAND

Indicator 11: Hamilton City CBD office vacancy rates (no update)

As reported in the June monitoring report, the overall vacancy rate in Hamilton's CBD increased to 7.4% in the six months to June 2018. This marks a further increase in the overall vacancy rate since December 2017 up from an historic low of 6.3% in June 2017. Overall vacancy levels still remain high and no any capacity supply issues are suggested.

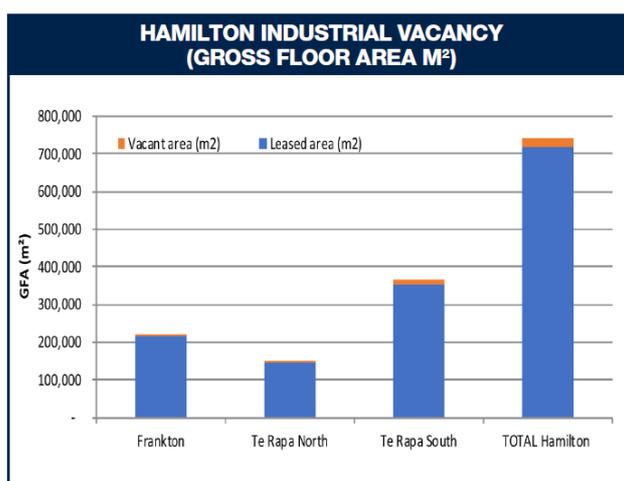
Indicator 12: Hamilton City CBD retail vacancy rates (no update)

As reported in the June monitoring report, The Hamilton CBD retail vacancy rate decreased to 6.3% in June 2018, down from 6.8% in December 2017, almost on par with the low of 6.2% in December 2016. The overall decrease in vacancy was led by strong take up of primary retail space. A large volume of stock has been removed for refurbishment and redevelopment largely in response to demand for quality and often smaller tenancy spaces. Vacancy levels remain high and do not suggest any capacity supply issues.

Indicator 13: Hamilton City Industrial vacancy rates (update)

Bayley's Research latest vacancy survey shows conditions remain extremely tight in the industrial sector. As at September 2018 Hamilton's overall vacancy stood at 2.3% down from 2.8% a year earlier. Te Rapa South reduced to 2.6% down from 3.3% the previous year. Frankton's industrial vacancy fell to 2.2% compared to 3.3% a year earlier. Vacancies in Te Rapa North increased from 0.4% to 1.4% in 2018.

Despite the significant growth in industrial building consents over the past few years, demand for well-located properties close to transport arterials continues to be strong. A lack of space in centrally located industrial precincts is driving growth further afield to areas such as Horotiu to the north and around the Hamilton airport in the south where demand at the more affordably priced Titanium Park has increased.



Source: Bayleys Research

7. PRICE EFFICIENCY INDICATORS [NO UPDATES]

The MBIE supplied three price efficiency indicators have not been updated. Refer previous Housing and Business Market Indicators Quarterly Monitoring Reports for indicator results and analysis. It is expected that these measures will be updated in the latter half of 2019.

Indicator 12: Rural Urban differentials (Residential)

Indicator 13: Housing Price to Cost Ratio

Indicator 14: Land price differentials across industrial zone boundaries

8. NOTES AND DATA SOURCES

The information was primarily sourced from the Ministry of Business, Innovation and Employment (MBIE) dashboard for Hamilton City, Waipa District, Waikato District and the Greater Hamilton Urban Area. Information was also sourced from Statistics New Zealand NZ.Stat website and publicly available reports from CoreLogic/QV, CBRE NAI Harcourts and Colliers International.

Indicator 1: Dwelling sales prices (actual) (Source: MBIE Dashboard, December 2018)

This indicator shows the median prices of residential dwellings sold in each quarter. This median price series is not adjusted for the size and quality of dwellings. Prices are presented in nominal terms; they have not been adjusted for general price inflation.

Indicator 2: Dwelling Sales price (SPAR Index) (Source for both images: MBIE Dashboard, December 2018)

The Sales Price Appraisal Ratio (SPAR) provides an index of percentage change in dwelling sales prices relative to a common base year. It is constructed by comparing the sales price of each dwelling sold in a period with its valuation estimate. It adjusts for the composition and quality of the dwellings sold over each period. Data is sourced from CoreLogic.

Indicator 3: Dwelling rents (actual) (Source for both images: MBIE Dashboard, December 2018)

Notes: This indicator reflects nominal mean rents as reported in new rental bonds lodged with MBIE. The mean used is a geometric mean. The reason for using this mean is that rents cluster around round numbers, and tend to plateau for months at a time (spiking up by say \$10 or \$10 at a time). This makes analysis of time series difficult and using the geometric mean is a way of removing this clustering effect.

Indicator 4: Housing Affordability

Infometrics housing affordability index (Source: Informetric Quarterly Economic Monitor – September 2018)

Infometrics housing affordability index which is the ratio of the average current house value to average annual earnings. The levels quoted in the report are average current values over the past 12 months. An average current value is the average (mean) value of all developed residential properties in the area based on the latest house value index from QVNZ. Housing affordability in the four most recent quarters is based on estimated average annual earnings, while earnings data from earlier years is based on actual figures from Linked Employer Employee Data published by Statistics New Zealand.

Indicator 5: Rental Affordability

Infometrics rental affordability Source: Informetric Quarterly Economic Monitor – September 2018

Indicator 6: New dwelling consents compared to household growth (Source: MBIE Dashboard, May 2018)

Notes: This indicator approximates the demand for, and supply of, new dwellings. It measures changes in demand and how responsive supply is. The number of new dwelling building consents is lagged by six months (presented as a 12 month rolling average), to account for the time taken from consenting to completion. It is not adjusted for non-completions, or for demolitions. It is used as a proxy for supply. The most recent resident

population, divided by the local average housing size, is used as a proxy for demand. Both sets of data are sourced from Statistics New Zealand.

Indicator 7: Core Logic Buyer classification (Source: Corelogic Buyer Classification, Hamilton December '18)

First home buyer (FHB)	Purchasing a single house with mortgage finance and buyer names have not previously appeared on a residential property title. Genuine FHBs purchasing with cash will appear as new to market cash buyers.
Multi-property owner (MPO, 'investor')	Adding to an existing portfolio of at least one property, except those classified as new to the market (see below). Includes purchases where the intent is to owner occupy.
Auckland Multi-property owner (MPO, 'investor')	As per the MPO definition above, with at least half of their portfolio based in Auckland.
Mover	Buying a single house having recently sold (or subsequently selling within a short timeframe) existing property. Movers will be labelled 'investors' for short periods if there is a lag between settlement and the sale of existing property.
New to market (NTM)	Purchasing a house with cash (or purchasing multiple properties on the same day) having not previously appeared on a residential property title nationwide, or purchasing a house in a region where buyer names have not previously appeared on a residential property title.
Re-entry	Buying a single house following an extended period of absence from the housing market (buyer names have previously appeared on a residential property title).
Other	Classification is unknown. Less common in the classification of buyers relative to sellers.

Indicator 8: Residential Building consents by territorial authority (Source: Statistics NZ Infoshare, January 2018)

Indicator 9: CBD district office vacancy rates (Source: CBRE NAI Harcourts , September 2018)

Indicator 10: CBD retail vacancy rates (Source: CBRE NAI Harcourts, September 2018)

Indicator 11: Industrial vacancy rates (Source: CBRE NAI Harcourts, March 2017, Bayleys Research Newsletter, Marketbeat, Spring November 2018)