Housing and Business Market Indicators
Quarterly Monitoring Report

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

Number 1
June 2017

1. FUTURE PROOF MARKET INDICATORS SUMMARY

Residential indicators

The Future Proof sub region[1] has experienced strong dwelling sales price growth since 2013, with rents also increasing at a steeper rate over this period than the three years prior. This, in part, is due to significant population growth and housing price growth driven, amongst other things by spill over growth effect from Auckland including a pronounced spike in Auckland based investor activity in Hamilton. Land values in the Future Proof sub regions have also trended upwards over this period. Whilst both affordability indicators suggest that housing and rental affordability has improved between 2013 and 2015, housing affordability generally decreased in the Future Proof sub region since then.

Whilst the number of consents issued have largely kept pace with the demand for new dwellings (household growth) a shortfall in supply appears to be emerging, most noticeably in Hamilton. This may indicate the presence of barriers to the supply of new housing which will need to be investigated further.

Business Indicators

The available business indicators currently suggest that there are no major concerns with the sufficiency of business capacity in Hamilton. Whilst there has been a recent decline in the central business district (CBD) office and retail vacancies in Hamilton, additional stock in the CBD is likely to be added via either new construction and/or refurbishment. Whilst uptake of and interest in industrial land remains high, a balanced supply of industrial land exists.

Further data and information is required to understand whether there may be shortfalls in the supply of business land in any of the other major towns in the Future Proof sub region or if there are any other localised issues.

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

TABLE OF CONTENTS

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 through providing sufficient development capacity for housing and businesses over the next 10 to 30 years. The NPS-UDC identifies the Future Proof sub-region as a high-growth urban area. As such, the Future Proof councils are required to meet all of the requirements in the NPS-UDC. This includes monitoring, and reporting, on a quarterly basis the housing and business market indicators (PB6). Indicators of price efficiency (PB7) will be available later this year for incorporation into subsequent reports. Other demand and supply drivers outside of the scope of NPS-UDC monitoring that impact on urban development include[2]: natural population growth; strong migration; low interest rates; investor confidence and activity; tax incentives; and low measured construction productivity.

3. PURPOSE OF REPORT

The purpose of this report is to fulfil the requirements of PB6. This is the first quarterly monitoring report from the Future Proof partners. PB6 seeks to ensure that local authorities are provided timely information about market changes that may affect the sufficiency of development capacity for housing and business land. The policy directs local authorities to monitor a range of indicators on a quarterly basis including:

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. Indicators of housing affordability

The policy encourages local authorities to publish the results of their monitoring under PB6. The format and content of this indicator report will be progressively refined in subsequent quarters.

4. OUTLINE OF REPORT

The market indicators described in this report are presented in two broad categories; residential indicators and business indicators. Eleven residential and three business indicators are presented. An overview narrative is provided at the start of each section with some further commentary provided with 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').

For this first report, the councils have identified challenges in securing data for the business indicators for both Waikato and Waipa districts. As such, the business indicators in this report are for Hamilton City only. The Future Proof partners note that this is an initial monitoring report and refinements to the reporting framework and indicators will be made over time. In many cases, trends will remain the same from quarter to quarter, and as such detailed commentary on the indicators will be provided on an annual basis, unless there is a marked change in an indicator.

5. 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.

[2] Auckland Chief Economist, June 2017

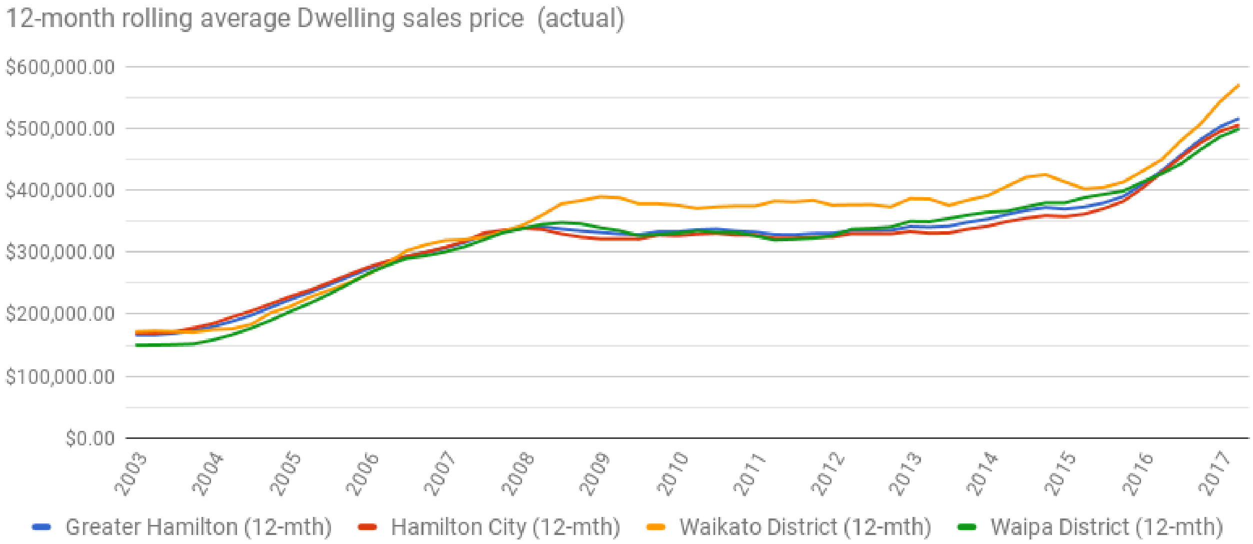
6. RESIDENTIAL INDICATORS

The Future Proof sub region has experienced strong dwelling sales price growth in the three years since 2013, with rents also increasing at a steeper rate over this period than in the three years prior. This in part is due to significant population growth and housing price growth driven by a spike in Auckland based investor activity as evidenced in Hamilton within the last three years. Whilst both affordability indicators suggest that housing and rental affordability has improved between 2013 and 2015, housing affordability generally decreased in the Future Proof sub region in 2015 and 2016.

Whilst the numbers of consents issued have largely kept pace with the demand for new dwellings (household growth) a shortfall in supply appears to be emerging, most noticeably in Hamilton, this may indicate the presence of barriers to the supply of new housing. Further investigation is required to understand what, if any, barriers there are to building more homes to meet growth in demand, and what impact these are having on prices. These barriers may include urban planning policies that constrain development, land banking, lending rules or construction industry skilled labour and capacity constraints.

6.1 DWELLING SALE PRICE AND RENT TRENDS

Indicator 1: Dwelling sales prices (actual)



(Source: MBIE Dashboard, August 2017)

As evidenced in Indicator 1 above, house prices in the Future Proof "Greater Hamilton" area increased rapidly for a number of years prior to the 2008 Global Financial Crisis (GFC). After the GFC house sale prices levelled off for a number of years before beginning to rise again in 2013. Prices have risen even more sharply in the last two years.

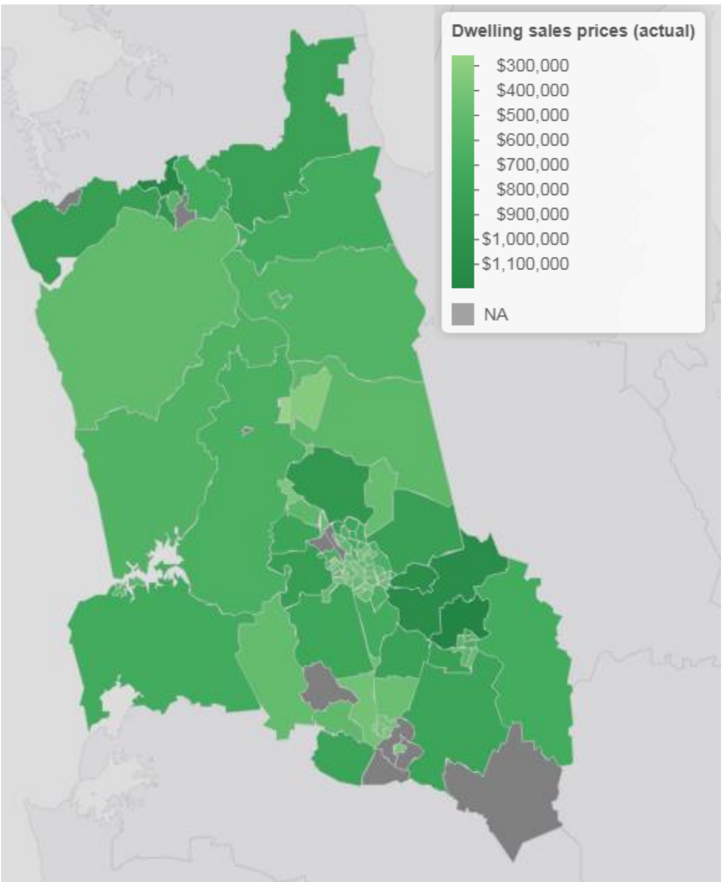
The Waikato District has since 2008 maintained a higher average dwelling sale price, due in part to the popularity of areas adjacent to Auckland, such as Pokeno and Tuakau, where demand from Auckland is reflected in the rate of price growth. This can in part be attributed to the Loan to Value (LVR) restrictions which initially targeted the Auckland region and consequently directed investment and buyer activity elsewhere.

Indicator 2: Dwelling sales prices for the Future Proof Sub Region, area units quarter 2 2017

This Auckland 'spill over effect' is also visible in Indicator 2 where the Area Units adjacent to Auckland reflect higher dwelling sales prices in the last quarter.

Higher dwelling sales prices have also occurred in the peri-urban areas around Hamilton. This may however be in part reflective of the larger lot and houses sizes of the 'lifestyle bocks' found in these areas.

For a longer term comparative view of house price increases the Sales Price Appraisal Ratio (SPAR) below provides an accurate view of the underlying price movements of residential dwelling sales price which has been adjusted for the composition and quality of dwellings sold over a period.



(Source for both images: MBIE Dashboard, August 2017)

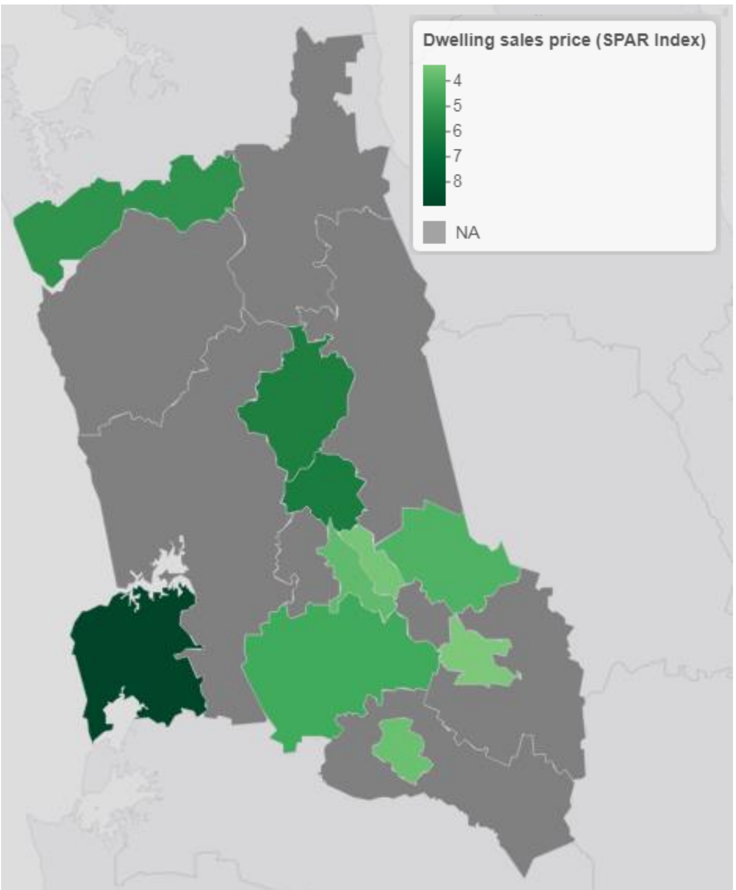
Indicator 3: Change in house price index (SPAR) June 1993 to June 2017 years – Ward level

The Sales Price Appraisal Ratio (SPAR) provides an index of percentage change in dwelling sales prices relative to a common base year of 1993. For example a SPAR index of 5 would indicate that prices are five times higher today than in 1993.

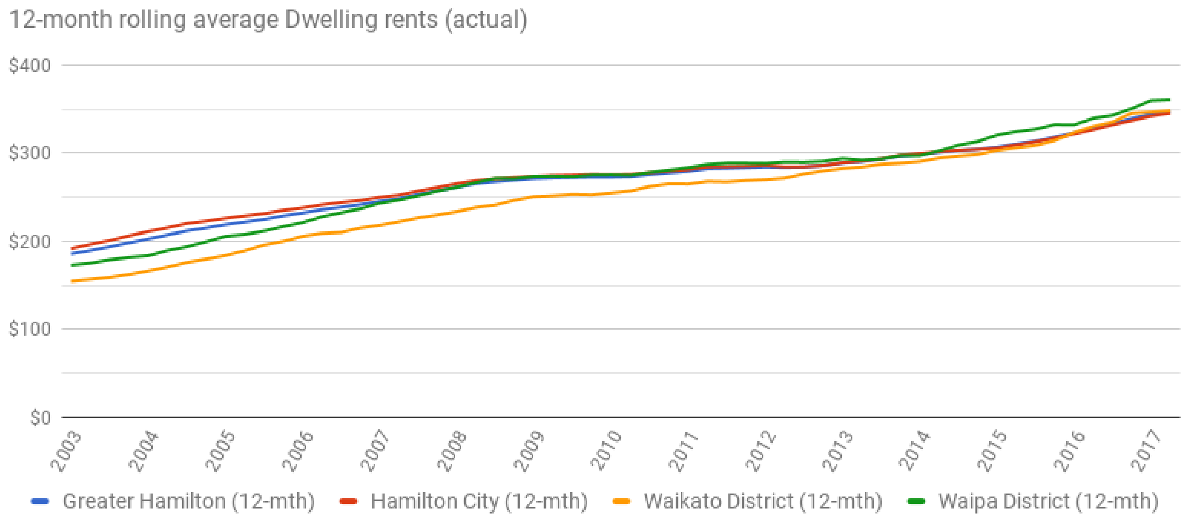
Since 1993 prices in the ward adjacent to Auckland containing Pokeno and Tuakau, are 5.2 times that which they were in 1993.

Exogenous demand from Auckland, and possibly Hamilton, has contributed to the price increases in the Huntly and Ngaruawahia wards of almost 6 times and 6.1 times respectively.

Prices in Hamilton have risen by almost 3.9 times to the west of the Waikato River and around 3.5 times to the east of the river. With prices in the Cambridge ward rising 3.3 times, 3.6 times in the TeAwamutu ward and 8.9 times in the Raglan ward.



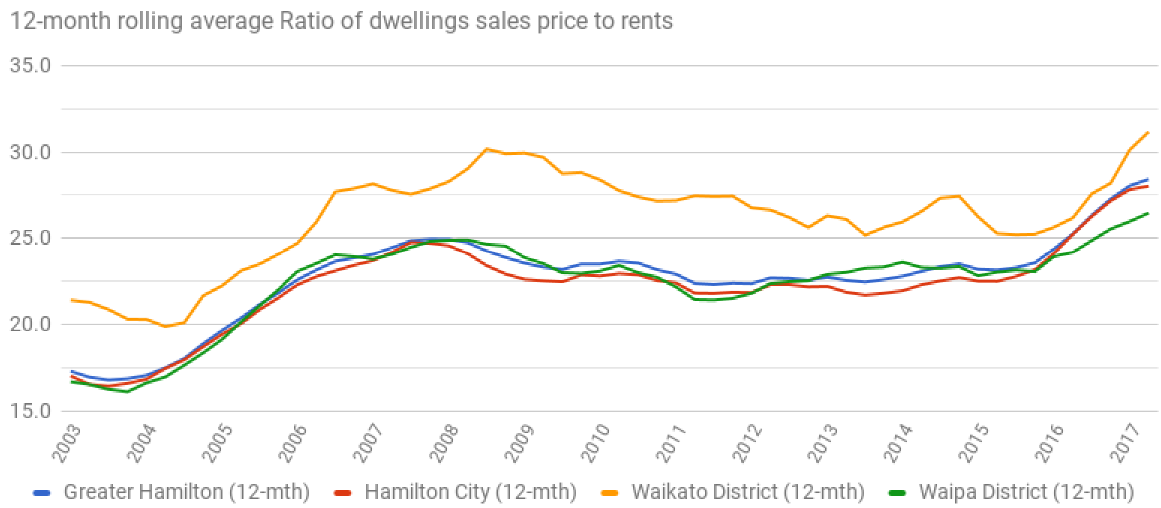
Indicator 4: Dwelling rents (actual)



(Source: MBIE Dashboard, August 2017)

The geometric mean weekly rent in the Future Proof sub region in the second quarter of 2017 is $347 with Hamilton City at $345, Waikato District at $348 and the Waipa District slightly higher $361. Following a similar pattern to house price growth in the sub region rents rose prior to the GFC in 2008 after which they levelled off until around 2013 where they once again began to increase. Whilst the geometric mean for all councils areas in the sub region have coalesced around a similar point, for a long period (1994 until 2009) Waikato District geometric rent sat lower than the other councils.

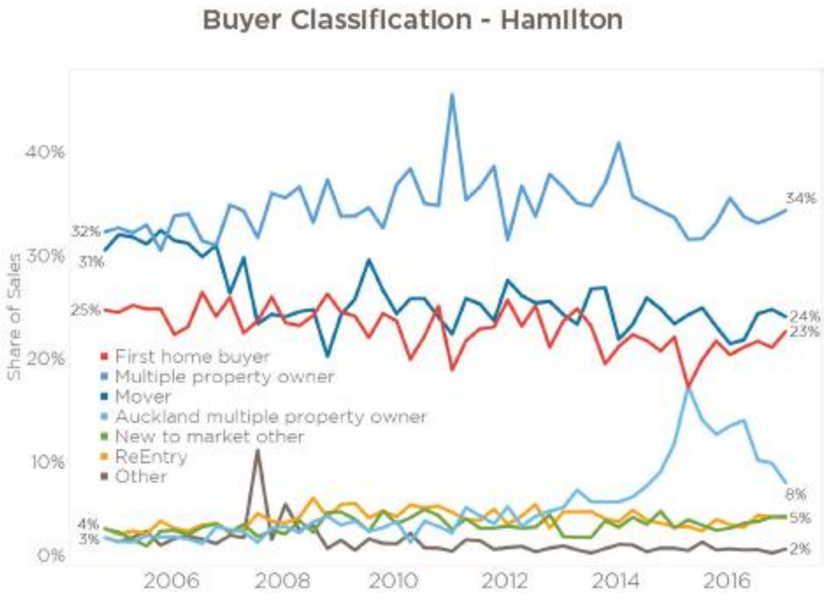
Indicator 5: Ratio of dwelling sales price to rents



(Source: MBIE Dashboard, August 2017)

This ratio of prices and rents provides additional insight into the relationship between owning and renting dwellings over time. It indicates changes in the ease of moving from renting to home ownership, and shows trends in the average yield to an investor from renting out a dwelling. A higher house price/rent ratio reflects a larger gap between renting and buying. The price to rent ratio for the Future Proof sub region now stands at 28.4, this means a median house is 28.4 times the mean annual rent paid. The ratios between house prices and rents have increased in all areas since 2015, largely driven by house price increases. Interestingly, the Waikato District from 2003 to 2016 maintained an outlier position, with a lager gap between renting and buying than seen with Hamilton City and Waipa District. Some divergence in the historical pattern for all three has occurred since 2016.

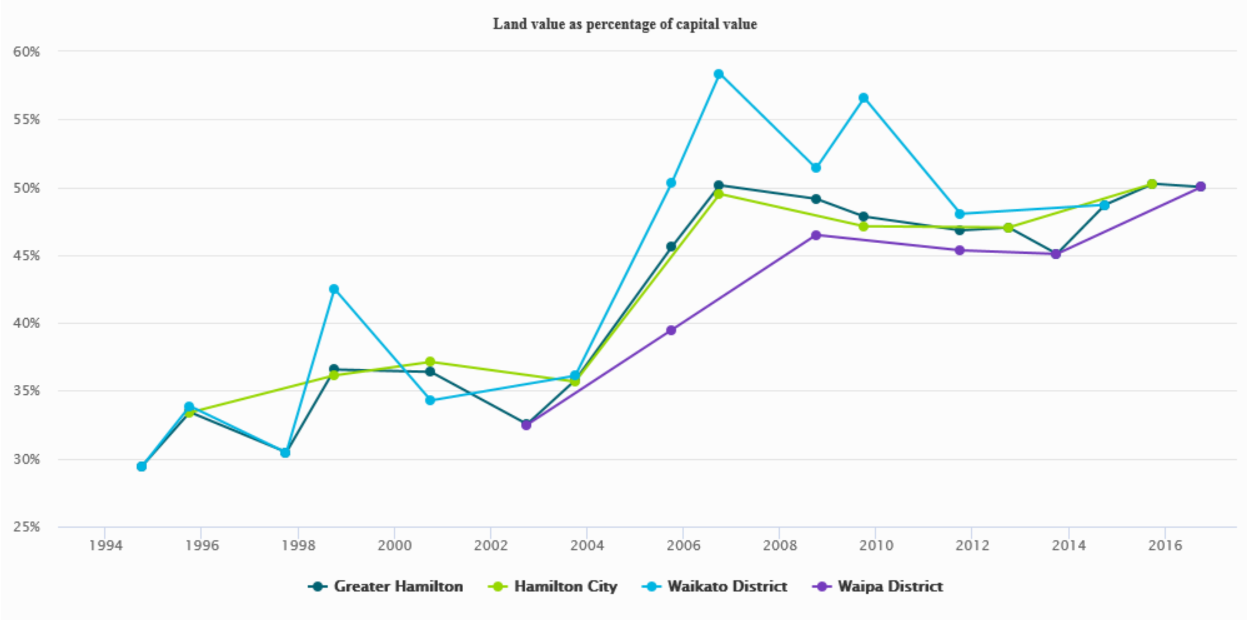
Indicator 6: Buyer classification– Hamilton



(Source: Corelogic Buyer Classification, Hamilton June-July 2017)

After an upsurge which peaked in 2015 there has been a sizeable decline in market activity by Auckland based investors in the Hamilton market. The Corelogic report[3] suggests that this decline in activity will be due to a combination of rising values in Hamilton and the increased difficulty in securing mortgage funding. It is noted, however, the effect of rising prices on investor behaviour is an empirical question – for example, rising prices *per se* may attract increased demand from investors, in the expectation of capital gains. Multiple property owners in Hamilton have remained the main buyer category.

Indicator 7: Land value as percentage of capital value



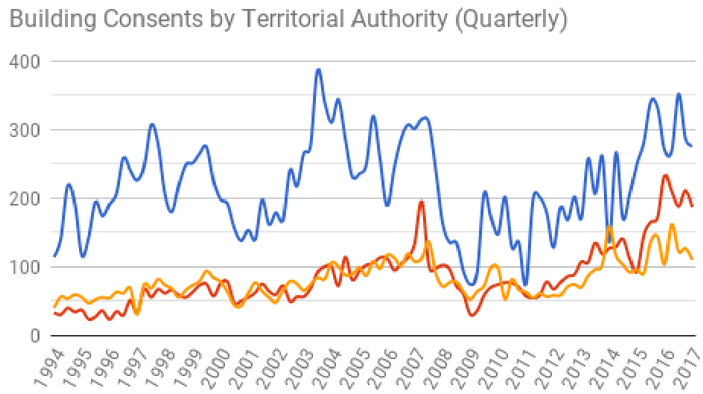
(Source: MBIE Dashboard, August 2017)

This indicator shows residential land values as a percentage of capital value. The volatility is due to the availability of the underlying revaluation data, which is updated every three years. Since 2003, land value as a percentage of capital value has increased for the Future Proof sub region from just under 30% to 50%. Hamilton City and Waipa have followed a similar pattern of increase over time however Waikato District appears to have been even more volatile. The extent to which the constraints on the supply of land (i.e. urban planning policies and land banking) have contributed to these increases will need further investigation.

[3] Core Logic (2017). CoreLogic New Zealand Monthly Property Market & Economic Update August- September 2017. Available: http://www.corelogic.co.nz/news-research/item/monthly-property-market-economic-update-for-august-september-now-available/

6.2 INDICATORS OF SUPPLY AND DEMAND

Indicator 8: Building consents by territorial authority



(Source: Statistics NZ, August 2017)

New dwellings consents in the Waikato District, Hamilton City and Waipa District appear to follow similar trends. After the decline triggered by the GFC in 2008, consents for all three councils have steadily increased almost reaching the pre GFC peak levels in 2003.

In the Indicator 9 graphs below the Future Proof sub region has again experienced strong growth in both population and dwelling consents since 2009. Whilst the number of consents issued have largely kept pace with the demand for new dwellings (household growth) an indication of a shortfall in supply is suggested, most noticeably in Hamilton. However what the net shortfall over this period may be is currently unknown. Factors that may contribute to the shortfall in supply may range from potential planning constraints to construction industry capacity constraints.

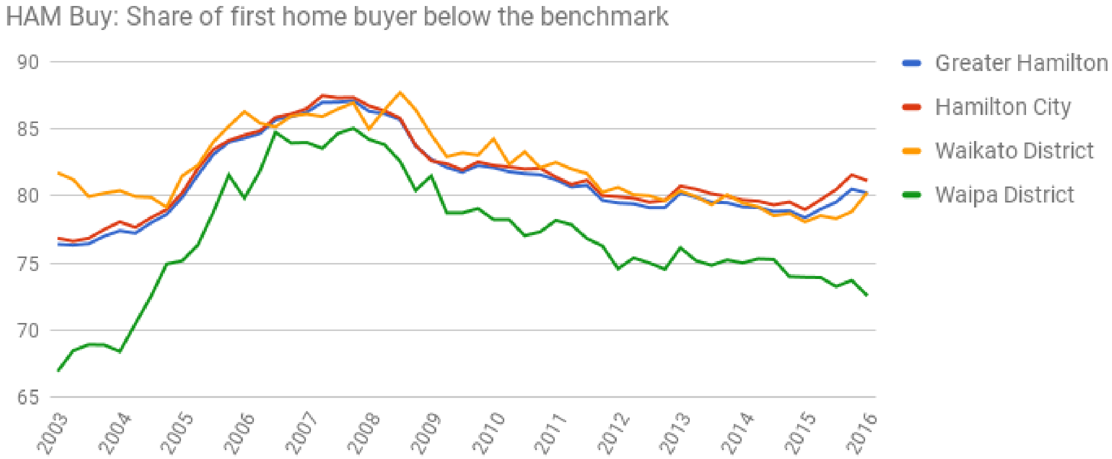
Indicator 9: New dwelling consents compared to household growth

(Source: MBIE Dashboard, August 2017)

6.3 HOUSING AFFORDABILITY TRENDS

The two reported measures below are sourced from the MBIE dashboard and form an experimental residual income affordability series that measures the number of households falling below the 2013 National Affordability benchmark (See Notes). Both the HAM-Rent and HAM- Buy indicators are currently published with more than a one year lag and consequently do not pick up recent trends.

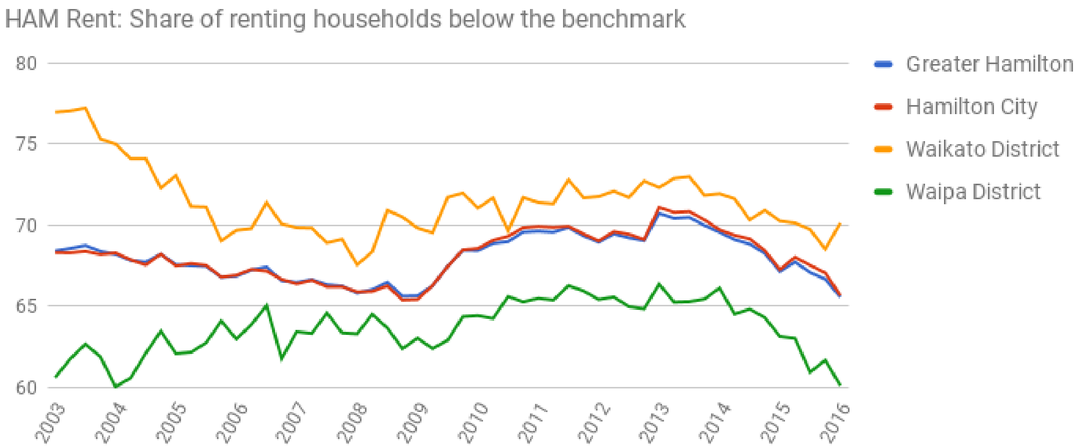
Indicator 10: HAM Buy – share of first home buyer households below the benchmark



(Source: MBIE Dashboard, September 2017)

The measure indicates that affordability for first home buyers steadily improved in the Future Proof sub region between 2013 and 2015, but deteriorated sharply since 2015 for Hamilton City and the Waikato District. This improvement in affordability would largely be due to a decline in mortgage interest rates and any increases in household income, which more recently have been offset by sharp price rises.

Indicator 11: HAM rent – share of renting households below the benchmark



(Source: MBIE Dashboard, September 2017)

The measure indicates that rental affordability has improved in the Future Proof sub region between 2013 and 2016, with a declining number of households falling below the 2013 National Affordability benchmark. The improvement in affordability in this period may be due to wage and employment growth. The measure indicates that, whilst affordability has improved, more households in the Waikato District fall below the National Benchmark than Hamilton City, while rentals remain relatively affordable in the Waipa District.

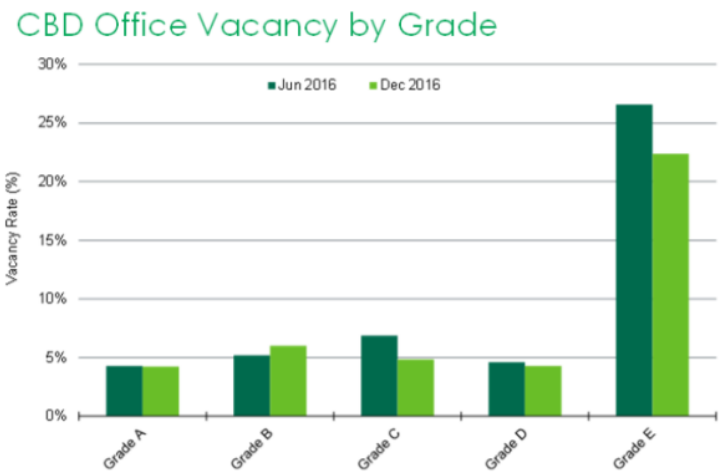
7. BUSINESS INDICATORS

Unlike the bigger centres of Auckland, Wellington and Christchurch (which have more readily, and regularly available indicators) there are currently limited business indicators publically available for the Future Proof sub region. Publicly available reports are currently limited to the reports from CBRE NAI Harcourts and the report from Colliers Intentional which focus solely on Hamilton City. These reports are released either bi-annually for CBD office and retail vacancy, or annually for industrial vacancy.

The latest CBRE NAI Harcourts reports from January 2017, reflect a decline in Hamilton City CBD office[4] and retail[5] vacancy, nevertheless the reports note that additional stock in the CBD is likely to be added via either new construction and/or refurbishment. With regard to industrial capacity in Hamilton both the latest CBRE NAI Harcourts report (January 2017[6]) and the Colliers report (September 2017[7]) outline that, whilst uptake of and interest in industrial land in Hamilton City remains high, a balanced supply of industrial land exist.

The available business indicators currently suggest that there are no major concerns with the sufficiency of business capacity in Hamilton. However further data and information is required to understand whether there may be shortfalls in any of the other major towns or if there are any other localised issues.

Indicator 12: Central business district office vacancy rates



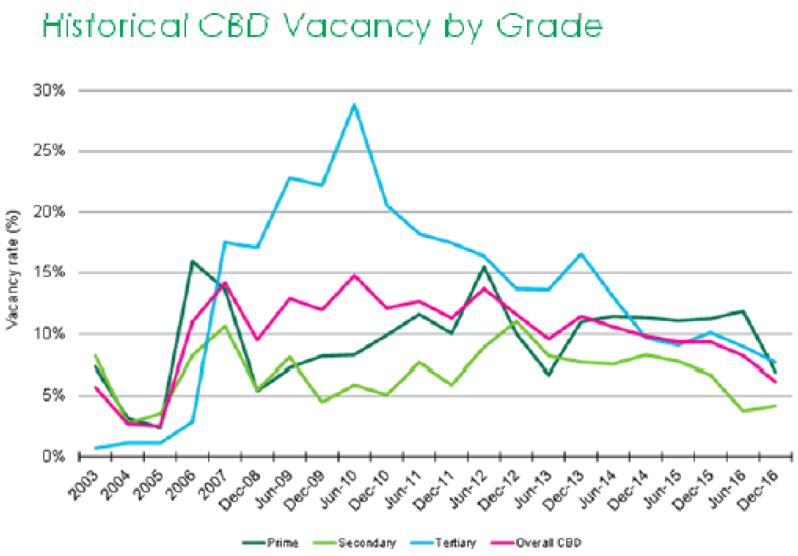
(Source: NAI Harcourts CBRE, January 2017)

The overall vacancy rate decreased from 8.5% in June 2016 to a historic low of 7.2% in December 2016 in Hamilton's CBD. This is due to a combination of factors including some sizeable take ups, the introduction of a fully leased new build, business expansion, limited new vacancies and no speculative supply.

The Hamilton CBD office market is characterised by average to lower quality grade space which forms the bulk of stock, although its composition is slowly changing to meet demand for higher grade space. The volume of existing office stock currently under refurbishment is very low compared to previous surveys, however CBRE NAI Harcourts expect this to be temporary given the large amount of vacant stock in lower grades that is suitable for redevelopment and earthquake strengthening. However, with two of the largest upcoming stock additions fully pre-committed, CBRE NAI Harcourts expect pressure on rents to emerge throughout 2017. Limited leasing options in the higher grades, coupled with rising rents, will give developers confidence as businesses look to expand in order to accommodate growth.

[4] CBRE NAIHarcourt (2017). Marketview Hamilton Office Occupancy Survey January 2017. CBRE Inc.
[5] CBRE NAIHarcourt (2017). Marketview Retail Occupancy Survey January 2017. CBRE Inc.
[6] Colliers International (2017). New Zealand Industrial Report September 2017. Colliers.
[7] CBRE NAIHarcourt (2017). Marketview Industrial Occupancy Survey January 2017. CBRE Inc.

Indicator 13: Central business district retail vacancy rates

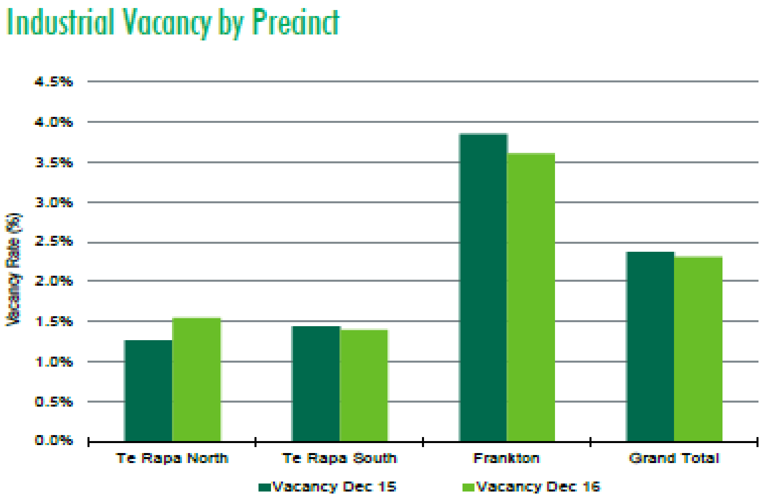


(Source: NAI Harcourts CBRE, January 2017)

The Hamilton CBD retail vacancy rate decreased by 2%, moving from 8.2% in June 2016 to 6.2% in December 2016. This is the lowest vacancy rate since 2005, when vacancy was 2.5%.

The amount of vacant space has decreased from 6,800 sqm in June 2016 to 5,100 sqm in December 2016. The total volume of space under refurbishment is around 9,300 sqm. Whilst there has been a steady decline in vacancy rates over the past few years, suggesting that retail space is becoming more limited to demand, ongoing refurbishment of continues to add a small volume of retail stock from time to time. Price information on trends in retail rents could be used to supplement this data as increasing rents could provide additional evidence of a lack of supply.

Indicator 14: Industrial vacancy rates



(Source: NAI Harcourts CBRE, January 2017)

The overall vacancy rate was reasonably stable between December 2015 and December 2016, and is currently 2.3%. Te Rapa North has increased from 1.3% in December 2015 to 1.5% in December 2016. Te Rapa South vacancy rate was stable at 1.4% between December 2015 and December 2016. The Frankton vacancy rate has decreased from 3.8% in December 2015 to 3.6% in December 2016. All grades except for Grade C experienced a decrease in vacancy over the twelve months to December 2016. This trend suggests that the current supply of industrial land in Hamilton is sufficient to meet demand, however strong interst has continued in Hamilton’s industrial land.

The recent Colliers International New Zealand Industrial Report (September 2017) has stated that Hamilton’s industrial market has continued to achieve steady growth over the past year, resulting in “available prime vacant space being absorbed almost as soon as it became available”. The Colliers report outlines that whilst there is strong demand, there is “speculative supply” in the pipeline for the norther industrial area of Te Rapa. However, it is noted that there has been “a steady flow of investor enquiry, including from Auckland, has placed further pressure on available stock to purchase. Non-location sensitive businesses from Auckland have also looked to relocate to a more affordable market.”

8. FUTURE QUARTERLY REPORTS

As the Future Proof Partnership develops its understanding of the local business and housing markets the quarterly monitoring report will be progressively improved and refined. Some matters which will be considered in future reports include:

- Further commentary and analysis of available data and trends.
- Other business land data and indicators particularly, which may be available at cost.
- Other timely measures of housing affordability.
- Input and commentary from local market experts, within the development sector for example.
- The integration of PB7 Indicators of price inefficiency.
- Improvements to the format, report length and consistency (e.g. time series, base year).
- Further consideration of regional comparisons (Bay of Plenty and Auckland for example) including greater consideration of the influence of Auckland trends on the Future Proof sub-region.

9. NOTES

Indicator 1 &2: Dwelling sales prices (actual)

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

Indicator 3: Dwelling Sales price (SPAR Index.

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 4: Dwelling rents (actual)

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 5: Ratio of dwelling sales price to rents

Notes: This ratio augments the price and rent indicators by providing about the relationship between owning and renting dwellings over time. It indicates changes in the ease of moving from renting to home ownership, and shows trends in investor yields.

Indicator 6: Buyer classification – Hamilton

This indicator shoes the types of buys in each market derived from QV sales data.

Indicator 7: Land value as percentage of capital value

Notes: This indicator shows the share of house values that are accounted for by land prices at each valuation period. A higher ratio indicates that land is more valuable relative to the buildings that occupy it.

Indicator 9: New dwelling consents compared to household growth

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 10: HAM Buy – share of first home buyer households below the benchmark

Notes: The Housing Affordability Measure (HAM) measures trends in housing affordability for the first home buyer household. For potential home-owning households, HAM Buy calculates what their residual income would be after housing costs if they were to buy a modest first home in the area in which they currently live. Affordability is affected by dwelling prices, mortgage interest rates and the incomes of rental households.

Indicator 11: HAM rent – share of renting households below the benchmark

Notes: The Housing Affordability Measure (HAM) measures trends in housing affordability for renting household. For renting households, HAM Buy calculates what their residual income would be after housing costs. Households are classified as being either above or below a 2013 National Affordability Benchmark; after paying for housing costs a single person would not have $662 left per week. This is set as the median affordability for all households, both homeowners and renters, nation-wide, in June 2013. A higher number on the chart indicates a lower level of affordability.