Future Proof market indicators report

May 2019

This is the sixth monitoring report for the Future Proof sub-region prepared under the National Policy Statement on Urban Development Capacity (NPS-UDC). Previously quarterly, this monitoring report will now be updated on triannual basis, with a more comprehensive version published mid-year. The mid-year report will focus on long-term trends and include further detail on a wider range of indicators. The other two shorter reports in the year (including this one) will provide short-term updates.

SUMMARY

Please note that as the Ministry of Business, Innovation and Employment (MBIE) data dashboard has not been updated since late 2018 this monitoring report is limited to a primary focus on Hamilton and draws on a wider range of supplementary indicators than previous reports.

House price growth in Hamilton has moderated further over the past few months, experiencing an annual increase of 4.5% in the March quarter 2019. Auckland values, on the other hand, were down by 1.5% over the same period representing the biggest annual fall in the last ten years.

The overall contribution of international migration to the demand for new houses, at both the national and local level, remains uncertain. After a recent period of decline, new international migration figures suggest that net migration remains at a high level and may be on an upward trajectory.

First home buyers were very active in the Hamilton market with a record high share (29%) of house purchases in the latest quarter to March 2019.

On the supply side, building consent levels for both residential and business have generally remained at a similar steady level over the last year. For housing, this suggests an improved supply response to the elevated levels of demand. For business land, this trend highlights the continued growth across numerous business sectors and emphasises the ongoing need to monitor the remaining capacity for growth.

Business vacancy rates in Hamilton to December 2018 have seen further decreases in industrial vacancy rates, now down to 1.2%. CBD retail vacancy has decreased slightly to 6.2% of the available stock and CBD office vacancy rates have increased slightly to 8.8%. Other than the known constraints in the industrial sector, vacancy levels for office and retail remain high and do not suggest any capacity issues.

NPS-UDC requirements

The NPS-UDC aims to ensure councils adequately consider the impact of their planning frameworks on the ability and efficiency of the market to provide sufficient housing and business land.

Under the NPS-UDC, councils are required to monitor a range of indicators and use these to understand how well housing and business land markets are functioning, how planning may affect this, and when additional development capacity might be needed.

Future Proof context

This report monitors market indicators for the Future Proof sub-region comprised of Waikato District, Hamilton City Council and Waipa District. The NPS-UDC defines the sub-region as ‘High Growth’ as the area is expected to experience growth of greater than 1% per annum over the next 10 years.

Methodology

The indicators used in this report would ordinarily be based on data provided or recommended by the MBIE. As the MBIE data dashboard has not been fully updated since late 2018, this report draws on a wider range of available indicators (both to December 2018 and March 2019) to supplement the available building consent data for the sub-region. CoreLogic and Infometrics housing indicators are drawn on for the housing market; information on the business market, namely vacancy rates, are collated from recent CBRE NIA Harcourts market reports. Options to improve the poor image quality of select graphs sourced from third party reports will be explored in future reports.

It is hoped that the full suite of indicators, including further commentary on some of the less frequently updated indicators, can be provided in a mid-year report, subject to a future update of the MBIE dashboard. For additional methodological notes see earlier versions of this monitoring report on the Future Proof website.

RESIDENTIAL MARKETS

House Value Trends

Overall, the annual growth rate in Hamilton house values to March 2019 was of 4.5%, continuing at a more moderate pace than previous years.

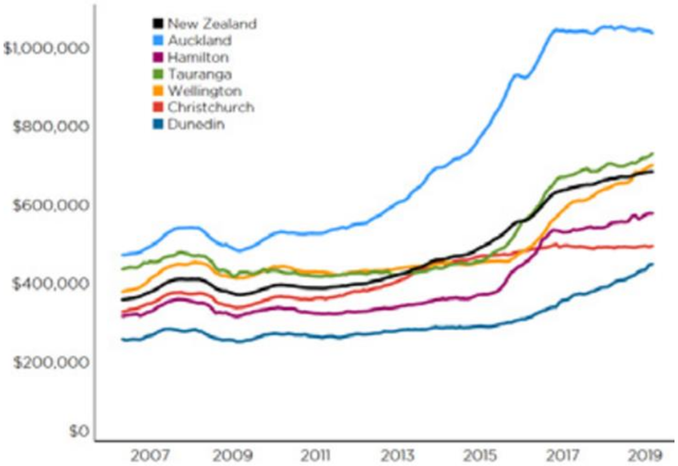

Figure 1: CoreLogic Average Dwelling Value[1]

The local rate of growth contrasts with Auckland, where property values have declined over the past few months, down by 1.5% in the year to March 2019. This represents the biggest annual fall in the last ten years.

Net Migration – Demand Indicator

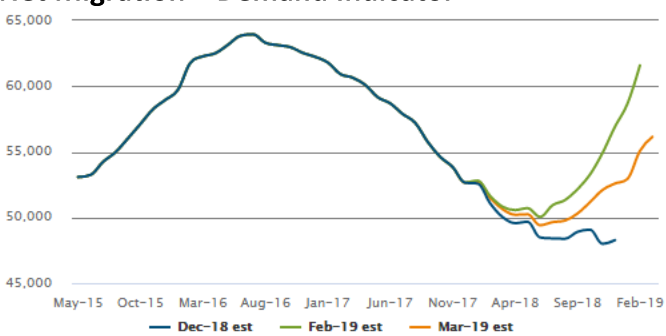

Figure 2: Net Migration (annual running totals)[2]

The latest international migration figures for New Zealand suggest that net migration remains at a high level and may be on an upward trajectory. The recent change to the Stats NZ net migration methodology has resulted in some uncertainty about the resulting levels of demand from migration at both the national and local levels. This uncertainty makes it difficult to assess the extent to which supply may be responding to the level of demand.

Market Demand Activity

Mortgaged Multiple Property Owners have continued to be less active in the Hamilton property market over the last two quarters to March 2019, accounting for 27% of Hamilton property purchases in Q1 2019, the lowest for more than a decade.

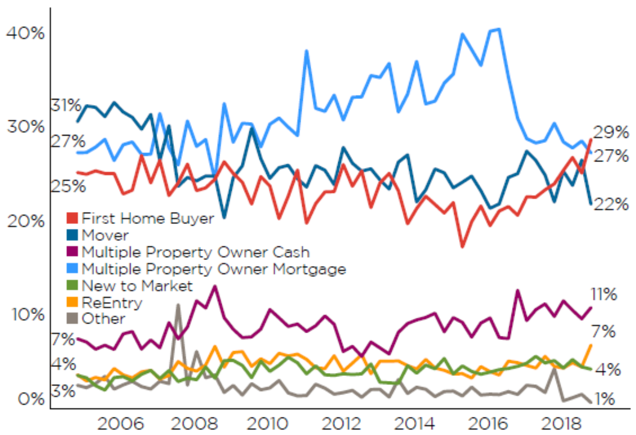

Figure 3: CoreLogic Buyer Classification[1]

Activity by First Home Buyers has further increased to a record high share (29%) of house purchases, well above the previous high of 27% in late 2006. In the March quarter of 2019, First Home Buyer activity in the Waikato District has also continued to increase, sitting at 24%. First Home Buyer activity in the Waipa District, however, has remained at a more moderate level of 17%.

New Construction – Supply Activity

A total of 708 new houses were consented in the sub-region in the latest quarter to March 2019, representing a small decline from the preceding December 2018 quarter result of 751. Nevertheless, the number of new house consents issued across the sub-region remains at a high level suggesting an improved supply response to the recent high levels of demand for housing.

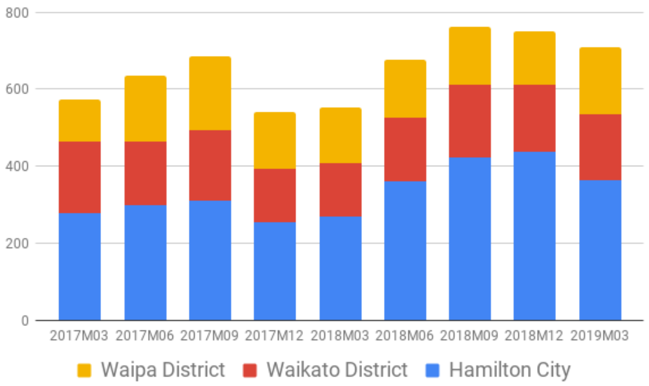

Figure 4: Residential Building Consents by TA (Quarterly)[3]

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[1] CoreLogic Quarterly Property Market & Economic Update New Zealand: Quarter 1, 2019

[2] Infometrics, Scattergun migration numbers continue: Our take on the latest International migration data (14 May 2019)

BUSINESS MARKETS

New Construction – Supply Activity

In the first quarter of 2019 a total of 26,728m^2 of business floor space (excluding farm buildings) were consented in the sub-region. While the amount of floor space consented in Hamilton has remained relatively constant over the year to March 2019, there has been significant variability in the amount of floor space consented in the Waikato and Waipa districts over the last two years. This trend highlights the continued growth across numerous business sectors and emphasises the ongoing need to monitor the remaining capacity for growth.

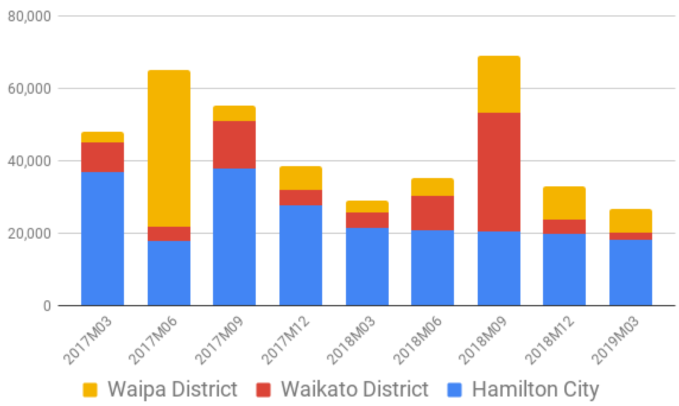

Figure 5: New Non-residential Building Consents – Floor Area (not including farm buildings), by TA (Quarterly)[3]

Business Vacancy Rates – Capacity Indicator

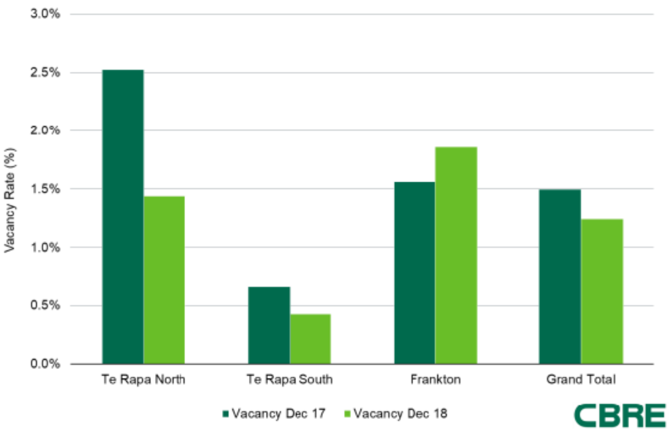

Figure 6: Hamilton Industrial Vacancy by Precinct[4]

Monitoring by CBRE NIA Harcourts shows further decline in overall industrial vacancies in Hamilton with vacancy rates at December 2018 decreasing further to 1.2%, the lowest ever recorded in Hamilton. While the overall stock in this period increased by 2.3% in the Te Rapa areas of the city, demand continued to outweigh supply in the industrial land and property market.

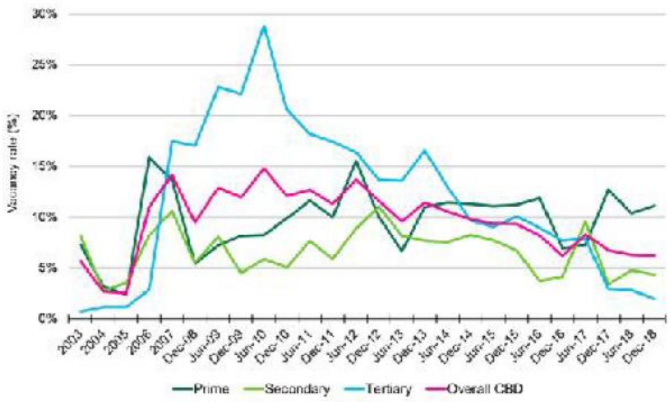

Figure 7: Hamilton CBD Retail Vacancy by Grade[5]

Monitoring by CBRE NIA Harcourts indicates that the Hamilton Central Business District (CBD) retail vacancy rate decreased slightly from 6.3% to 6.2% in the six months to December 2018. Vacancy levels remain high and do not suggest any capacity supply issues.

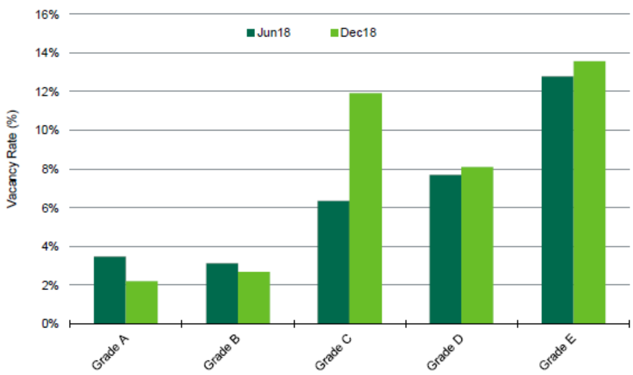

Figure 8: Hamilton CBD Office Vacancy by Grade[6]

Monitoring by CBRE NIA Harcourts suggests that the overall office vacancy rate in Hamilton's CBD has increased to 8.8%, up by 1.4% in the six months to December 2018. This marks a further increase in the overall vacancy rate from an historic low of 6.3% in June 2017. Consequently, vacancy levels remain high and no capacity supply issues are suggested.

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[3] Statistics New Zealand Building consents by territorial authority and selected wards (monthly) to March 2019
[4] CBRE Research and NAI Harcourts, Hamilton Industrial Occupancy Survey, February 2019
[5] CBRE Research and NAI Harcourts, Hamilton Retail Occupancy Survey, January 2019
[6] CBRE Research and NAI Harcourts, Hamilton Office Occupancy Survey, April 2019