

Housing and Business Market Indicators Quarterly Monitoring Report

Quarter ending March 2018

Report 4: 7 June 2018

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Summary

Median sale house prices continue to increase – 2.3% higher compared to the end of the previous quarter in September and 12% higher across the city compared to the end of March 2017.

Mean weekly rent costs increase by 3% compared to the previous quarter and 10% up between March 2017 and March 2018.

The price cost ratio in the city reached xx in 201....., indicating that the supply of land/sections is not keeping up with the demand and that the price of land is disproportionately increasing house prices. With increased population growth, demand, and house price increases it is worth seeing if this pattern continues and consider whether further land can be released.

Affordability of housing for first time buyer continues to decrease.

The median cost of housing increased most strongly in the Northern ward and Wainuiomata in the year to March 2018.

The cost of rental housing increased most strongly in the northern and eastern wards in the year to March 2018.

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 local planning enables development by providing sufficient development capacity for housing and business over the next 10 to 30 years. The policy statement identifies Lower Hutt as a medium-growth area and therefore Council is required to monitor and report on housing and business market indicators under policy PB6 of the NPS-UDC. The indicator on housing price to cost ratio, under policy PB7, is also included in the report. Further price efficiency indicators will be added to future reports.

Purpose and outline

The National Policy Statement on Urban Development Capacity (NPS-UDC) requires Council to monitor a number of indicators to assess the feasibility and affordability of development within the district. The purpose of this report is to fulfil the requirements of policy PB6. PB6 of the NPS-UDC specifically states that the quarterly assessment must assess:

- 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.’¹

The policy encourages local authorities to publish the results of their monitoring.

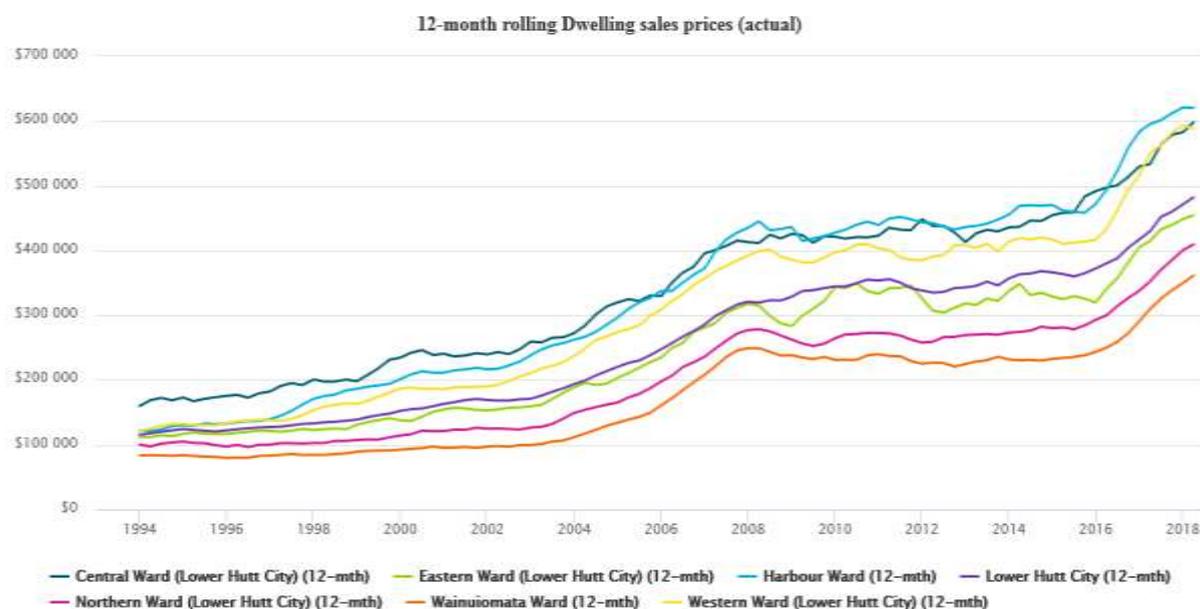
The report currently includes residential indicators with commentary. Notes on the indicators are available in the final section of the report. Data sources are the MBIE Urban Development Capacity dashboard, Statistics New Zealand, and Hutt City Council data on consents and houses built.

¹ MBIE, National Policy Statement on Urban Capacity Development.

One challenge identified is gaining regular access to data on the availability/demand, and cost of business land in the city. The first report used data from research conducted by Bayleys, and Colliers. We do not have updates to this data. For monitoring purposes we need to be able to access the same data on cost, demand, etc. for business land on a regular basis.

Residential Indicators

Indicator 1 – Dwelling sales prices (actual)

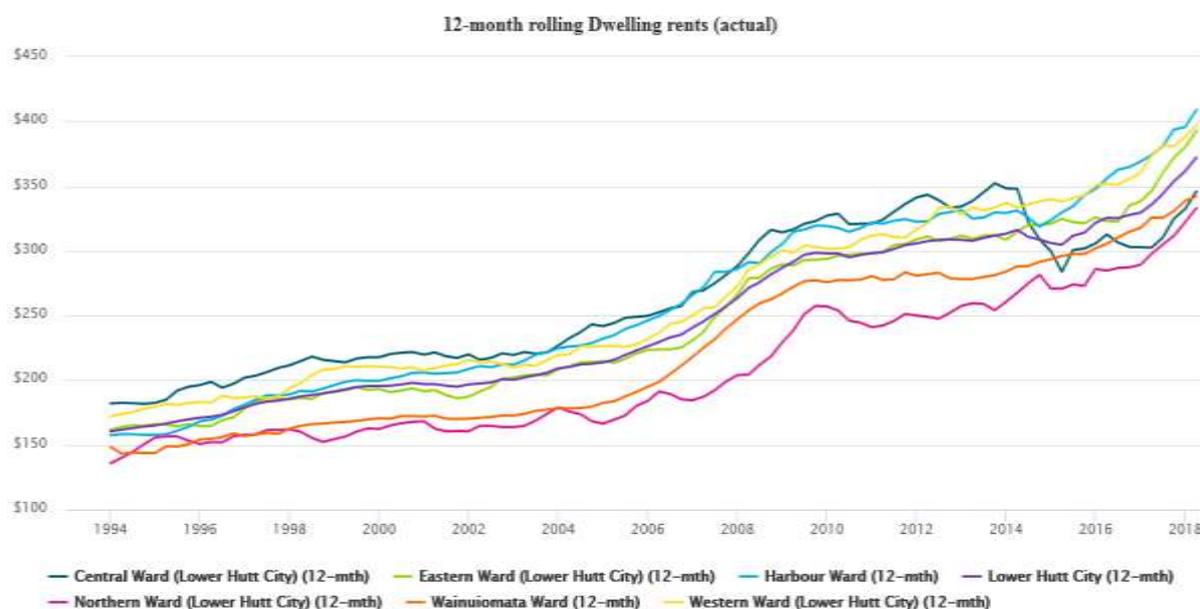


House prices in the city have continued to increase and are 2.3% higher at the end of March compared to the end of December. That compares to a 1.6% increase on the September to December 2017 figures. Prices increased by 12.1% between the end of March 2017 and the end of March 2018 – from \$429,813 to \$482,238.

Between March 2017 and the end of March 2018 median house prices increased particularly in the Central, Northern, and Wainuiomata wards.

Ward	March 2017	March 2018	% increase
Central	\$533,625	\$598,155	12%
Eastern	\$414,750	\$454,625	10%
Harbour	\$595,563	\$620,438	4%
Northern	\$352,111	\$409,313	16%
Wainuiomata	\$309,573	\$361,313	17%
Western	\$550,625	\$588,982	7%

Indicator 2 – Dwelling rents (actual)



The mean weekly rent in the city at the end of the March quarter 2018 is \$372. This is an increase of 3% compared to the previous quarter and 10% between March 2017 and March 2018 – from \$336 to \$372 per week.

Between March 2017 and March 2018 2017 the following percentage increases in rental costs occurred in the city's wards.

Ward	Percentage increase
Western	7%
Harbour	9%
Central	14%
Northern	11.7%
Eastern	13.5%
Wainuiomata	5%

Indicator 3 – Change in house price index (SPAR)

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 indicates that prices are five times higher in 2018 than in 1993.

At the end of March 2018 prices in the city are 4.7 times higher than they were in 1993. At the end of March 2017 prices in the city were 4.2 times higher than in 1993. Prices at ward level have also increased with prices in Harbour ward 5.23 times higher than 1993 and prices in the Eastern ward 5.32 higher than 1993.

Indicator 4 – Ratio of dwelling sales price to rents



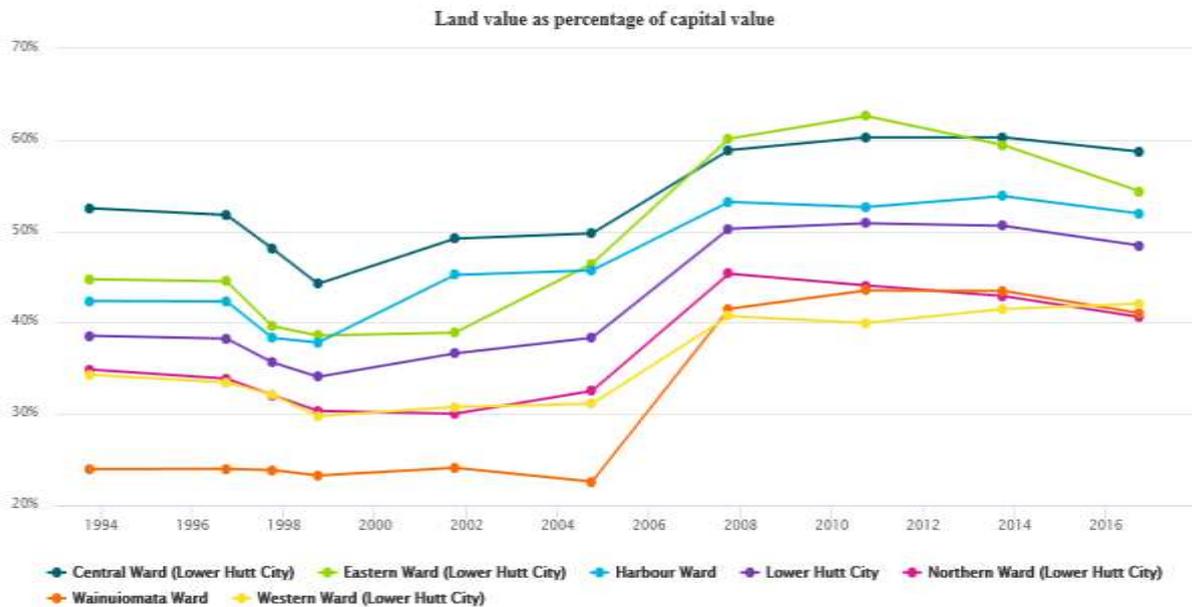
This ratio of house prices to rents gives an insight into the relationship between owning and renting and indicates changes in the ease or difficulty of moving from renting to home ownership. A higher house price/rent ratio reflects a larger gap between renting and buying.

The price to rent ratio for Lower Hutt in the March quarter is 24.9. This is the same as in December 2017, which means a median priced house is 24.9 times the mean annual rent paid. Rents and prices have increased by 3% and 2.3% respectively during the last quarter. The ratio was 24.6 in March 2017. At ward level:

Ward	Percentage increase
Central	33.4
Eastern	22.8
Western	28.6
Harbour	29.2
Wainuiomata	20.2
Northern	23.6

The gap between renting and buying is smallest in the Wainuiomata ward but has increased from 18.2 in March 2017 and the 15.7 in March 2016.

Indicator 5 – Land value as a percentage of capital value

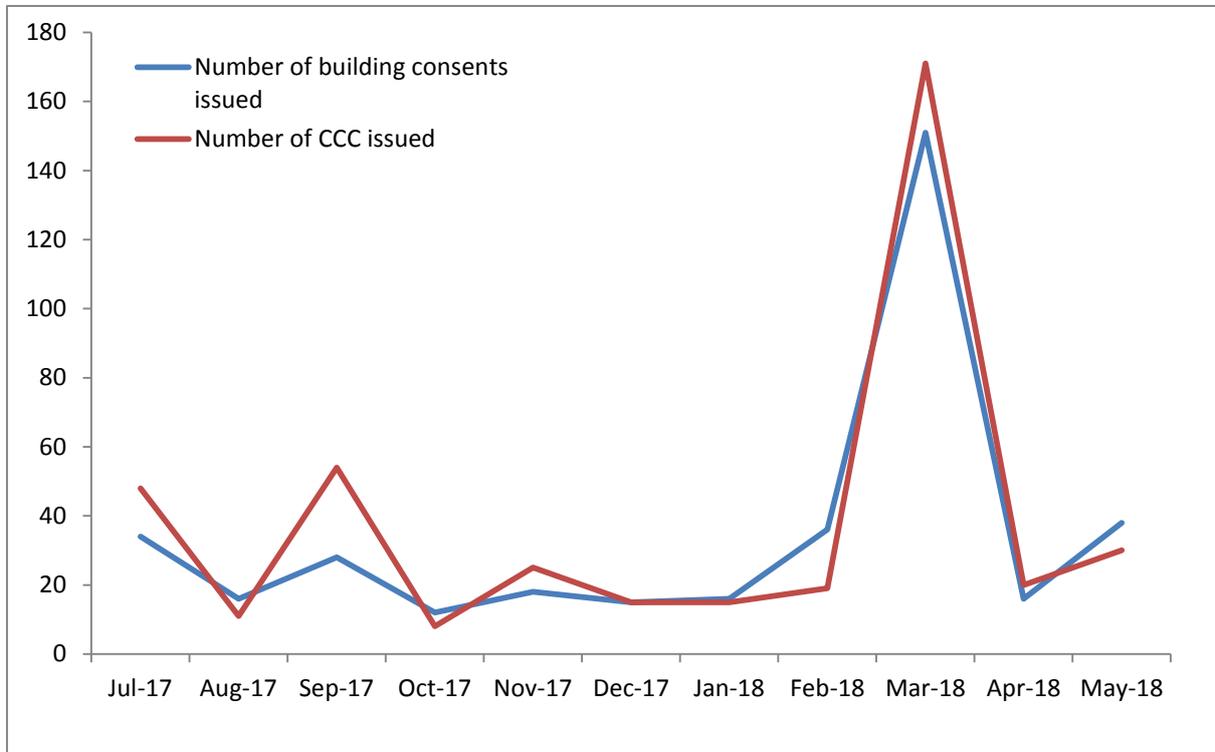


This indicator shows residential land values as a percentage of capital value. In September 2004 land value was 38.3% of the capital value while in September 2016 it had reached 48.4% of the capital value of a the house. At city level, land value as a percentage of the capital value remained relatively stable between 2007 and 2013 before decreasing in the period to 2016. The picture at ward level is a little different with more fluctuation. In the Eastern ward in 2007, land value was 60% of the capital value of properties. This increased to 62.6% in 2010 before falling back to 54% in 2016. Land value as percentage of the properties decreased in Northern ward has fallen from 45.3% in 2007 to 40.6% in 2016.

As demand in the area has increased, the land value in Wainuiomata increased from 22.6 % of properties in 2004 to 41.5% in 2007 and then to 43.5% in 2010 and 2013, before falling to 41% in 2016.

Supply and demand

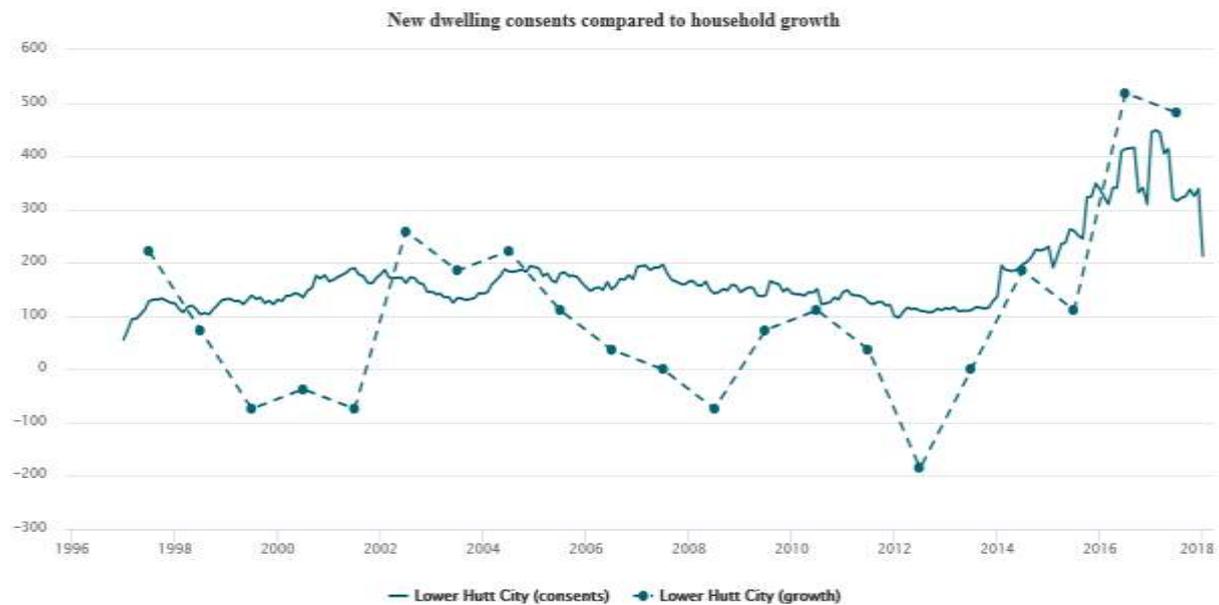
Indicator 6 – Number of new dwellings consents and code compliance certificates for Lower Hutt July 2017 to May 2018



* The figures for March 2018 include the 82 units at number 73 Jackson Street, the 47 units at 25 Graham Street, and the 151 apartments completed by Rymans.

380 consents for new dwellings were issued between July 2017 and May 2018. This compares with 213 in the year between July 2016 and June 2017. The number of consents and completions were boosted by the consents issued for units in Petone in March 2018 and the completion of the Rymans apartments during the same month.

Indicator 7 – New dwelling consents by household growth



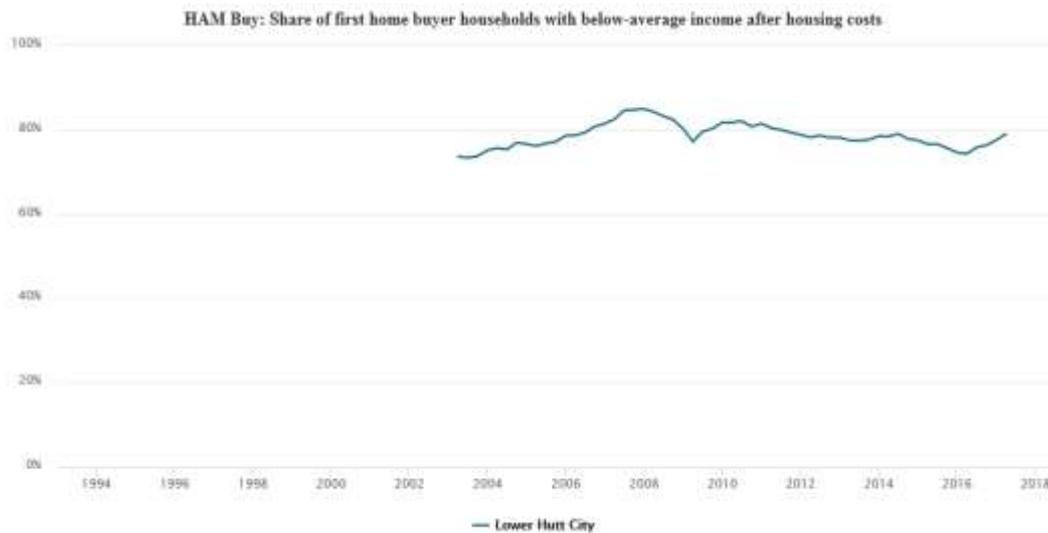
A period of falling household growth between 2010 and 2012 has been followed by relatively consistent increase in the period to June 2016. Household growth has not been updated on the dashboard. Although consent numbers have increased since 2014 the indicator shows that household growth continues to grow more strongly than consent for new dwellings. The number of consents increased strongly in the later part of the 2017-2018 year but there is still an indication of a mismatch between demand and supply and is likely to be a factor in the increases in house prices and rent costs.

Housing Affordability Trends

The affordability indicators are from the MBIE dashboard and calculate what a household's residual income would be after housing costs if they were to buy a modest first home in the area in which they live or their income after housing costs for households in rented dwellings. Both indicators currently have data from March 2003 to the end of March 2017.

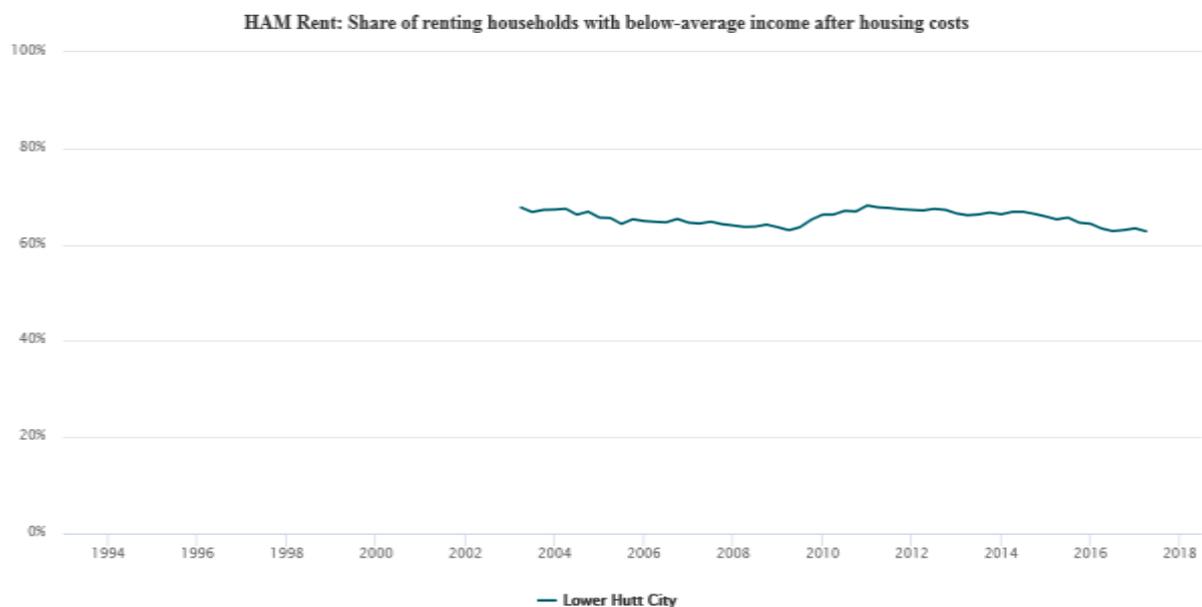
The percentage of first time home buyers with below average income after housing costs increased from 74.1% in March 2016 to 78.8% in March 2017. 83% of households in Porirua had below average incomes after paying their housing costs while in Wellington and Upper Hutt the percentages were 63% and 77% respectively.

Indicator 8 – Share of first home buyer households with below-average income after housing costs



62.7% of households that rented accommodation had below average incomes after paying their housing costs. This has dropped slightly from 63.3% in March 2016. 44% of households in Wellington City and 62.6% of those in Upper Hutt had below average incomes after paying their housing costs. 68.4% of households in Porirua had below average incomes after housing costs are considered.

Indicator 9 – Share of renting households with below average income after housing costs



Price Efficiency

Rural – urban differential

The rural-urban differential is the difference between the price of land in the urban area and nearer to the city centre, as opposed to the price of land further out and into rural areas.

In the Wellington urban area land is 2.30 more expensive than rural land. This equates to \$201 per square metre and, for a 600 square metre section for example, the price difference would be around \$120,371. Policies and approaches to planning and development, including urban-rural boundaries, height restrictions and so forth can affect the price of land and development costs.

Industrial zone differentials

‘The differentials between the industrial and other land within 250m of the boundary’

There are examples of areas in the city where the value of industrial land compared to similarly-located residential land is lower. This indicates that there could be a relative shortfall in development capacity for housing in these locations. An example is the area between Western Hutt Road and Hebden Crescent in Kelson, where the value of residential land is significantly higher.

It may be worth exploring this further to see whether or not there is potential for using some of this land for residential use.

Notes on indicators

Indicator 1: 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 2: Dwelling rents (actual)

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 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 5: Ratio of dwelling sales price to rents

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 5: Land value as percentage of capital value

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 6: New dwelling consents and dwellings built

This indicator shows the number of new dwelling consents in the city and number of code compliance certificates issued for completed dwellings.

Indicator 7: New dwelling consents compared to household growth

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.

Indicator 8: HAM Buy – share of first home buyer households below the benchmark

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 9: HAM rent – share of renting households below the benchmark

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.

Indicator 10: Price-cost ratio

The indicator includes data on sale prices for stand-alone houses, proxy construction costs by housing type to construct a square metre cost for each house sale, a construction cost buffer to take account of construction costs that are unaccounted for in the data e.g. building on hills etc., and a percentage for agent fees and related costs. House prices are compared to construction costs to estimate how much of the remaining price is driven by the cost of land (infrastructure-serviced sections) and whether this proportion is changing over time. Table 23 and p.134 – National Policy Statement on Urban Development Capacity: Guide on Evidence and Monitoring