

# Housing and Business Market Indicators Quarterly Monitoring Report

**Quarter ending September 2018**

**Report 6: 3 January 2019**

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## Summary

Following slower house price growth in the June quarter, prices picked-up across the city in the quarter to September 2018. Median sale prices increased by 9% up between September 2017 and September 2018.

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

Mean weekly rent costs increase by 2.6% compared to the previous quarter and by 10% between September 2017 and 2018. The cost of rental housing increased most strongly in the Central and Northern wards in the year to September 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 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.

## 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.<sup>1</sup>

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

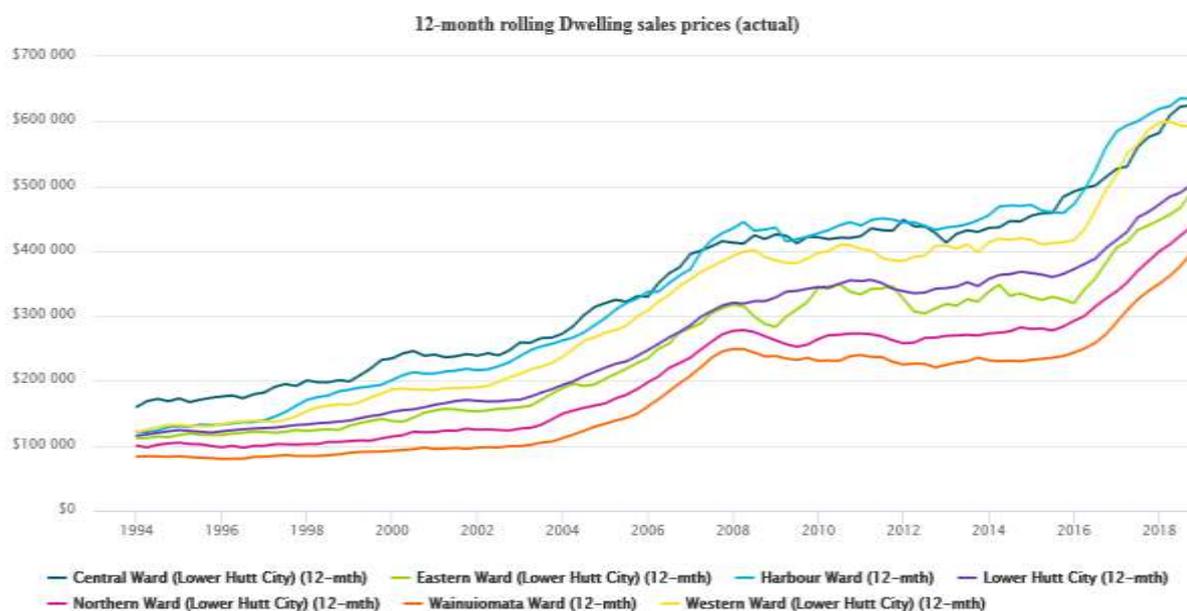
The report currently includes residential indicators with commentary. Notes on the indicators are available in the final section of the report. Data sources are the MBIE Urban Development Capacity dashboard, Statistics New Zealand, and Hutt City Council.

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<sup>1</sup> MBIE, National Policy Statement on Urban Capacity Development.

## Residential Indicators

### Indicator 1 – Dwelling sales prices (actual)



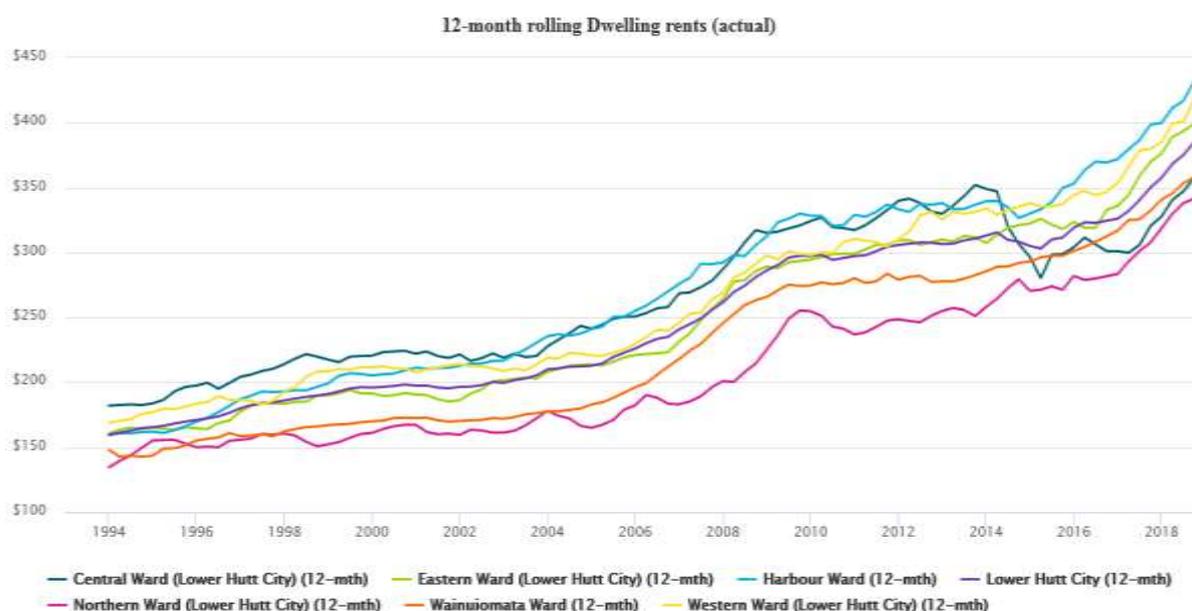
House prices in the city continued to increase over the quarter following the slower growth seen in the quarter ending June 2018. House prices in the city increased by 2.4% by the end of the September quarter compared to the 1% increase to the end of June quarter. Median sale prices increased by 9% up between September 2017 and September 2018.

In the Eastern ward prices increased by 4.8% between the end of June and end of September while there was a 4.9% increase in Wainuiomata, and 2.9% in the Northern ward. In the Harbour and Western wards prices decreased slightly – and increased by 0.3% in the Central ward.

### Annual change at ward level September 2017 – September 2018

Ward	2017	2018	% increase
Central	575,688	624,560	8.4
Eastern	439,563	489,375	11.3
Harbour	610,250	634,875	4
Northern	384,424	436,500	13.5
Wainuiomata	338,698	395,563	16.7
Western	586,965	592,000	1

## Indicator 2 – Dwelling rents (actual)



The mean weekly rent in the city at the end of the September quarter 2018 is \$385. This is an increase of 2.6% compared to the previous quarter and a 10% increase between the end of September 2017 and the September 2018 – from \$350 to \$385.

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

Ward	Percentage increase
Western	10%
Harbour	8.2%
Central	11.5%
Northern	11%
Eastern	7.8%
Wainuiomata	7.8%

QV data for median rents also indicates high rental levels in some areas, for example Wainuiomata.

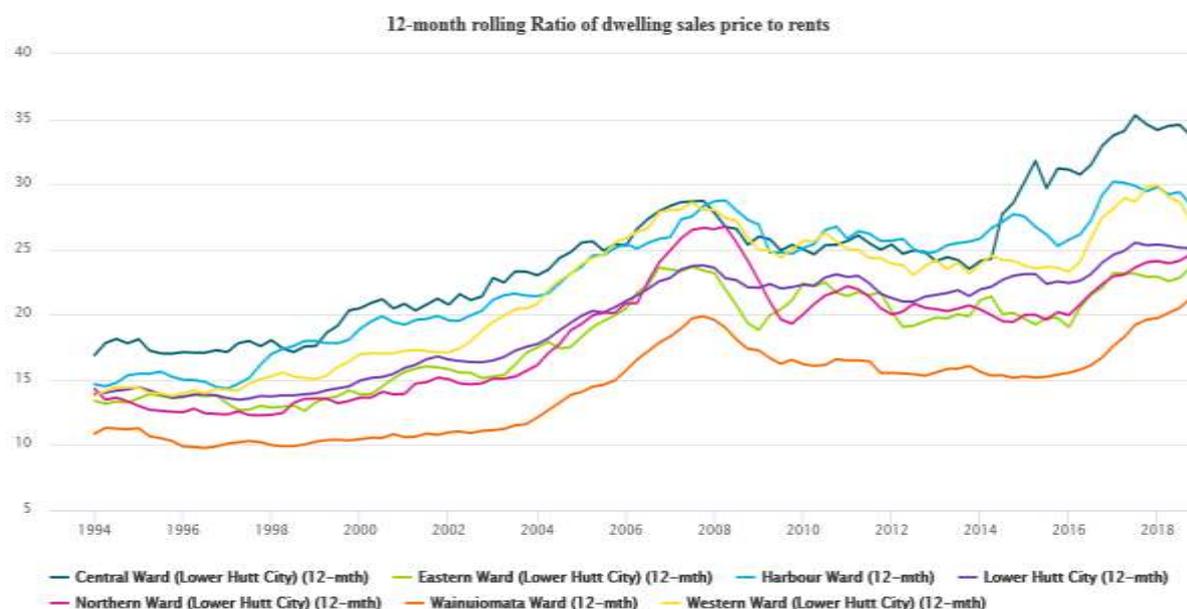
Suburbs	Bonds	Median Rent	Annual Rent Change
Stokes Valley	31	\$400	-2.40%
Western Hills/Haywards	53	\$460	9.50%
Wainuiomata	42	\$410	17.10%
Eastern Bays	19	\$630	-3.10%
Moera/Waiwhetu	44	\$400	0.00%
Petone/Esplanade	58	\$460	15.00%
Petone West/Alicetown	31	\$400	-9.10%
Taita/Naenae	53	\$380	-5.00%
Hutt Central/Waterloo	81	\$435	14.50%
Epuni/Avalon	97	\$390	-1.30%

### 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 September 2018 prices in the city are 4.976 times higher than in 1993. At the end of the previous quarter prices in the city were 4.857 times higher than in 1993. Prices at ward level have also increased with prices in Harbour ward 5.420 times higher than 1993, Eastern ward 5.483 higher than 1993, Wainuiomata 5.110, and Western 5.009 higher.

### Indicator 4 – Ratio of dwelling sales price to rents



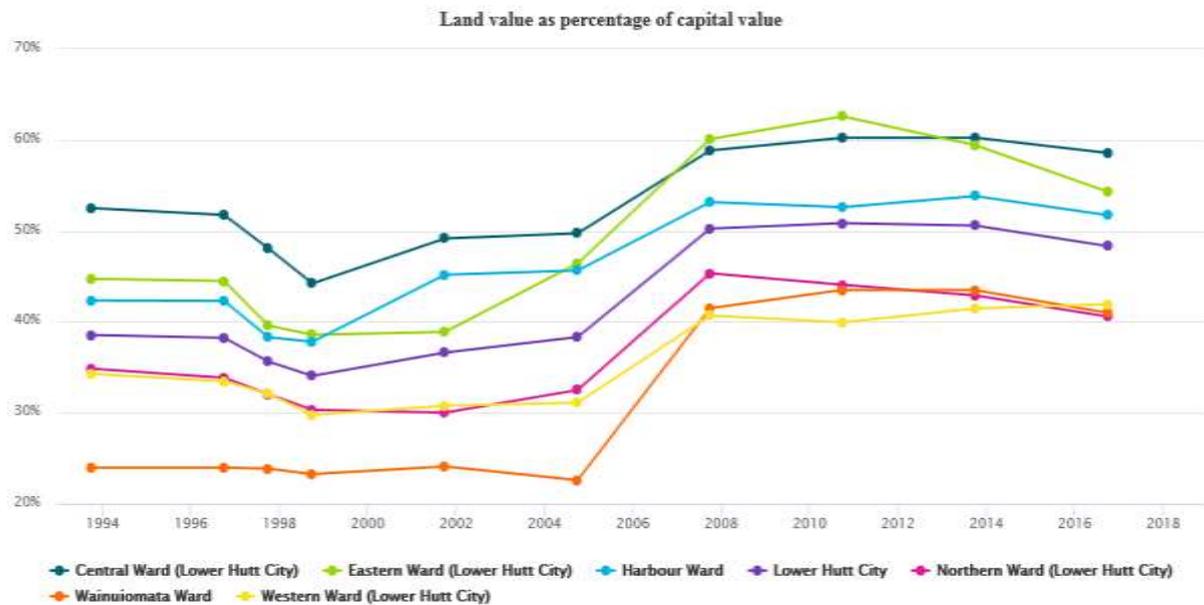
This ratio of house prices to rents is an insight into the relationship between owning and renting and indicates changes in the ease or difficulty of moving from renting to home ownership. A higher house price/rent ratio reflects a larger gap between renting and buying.

The price to rent ratio for Lower Hutt in the September quarter is 25.102. This is down from the 25.144 at the end of the June and means a median priced house is 24.102 times the mean annual rent paid. Rents and prices have increased by 2.6% and 2.4% respectively during the last quarter. At ward level:

Ward	Percentage increase
Central	33.752
Eastern	23.585
Western	27.236
Harbour	28.453
Wainuiomata	21.248
Northern	24.608

The gap between renting and buying is smallest in the Wainuiomata ward but has continued to increase – from 19.230 in June 2017 to 20.138 in March 2018 and 20.509 in June 2018.

## Indicator 5 – Land value as a percentage of capital value (No new data)



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, at just over 50%, 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

In the July to September quarter there were 101 building consents for new dwellings and 52 code of compliance certificates were issued for new dwellings.

## Indicator 7 – New dwelling consents by household growth

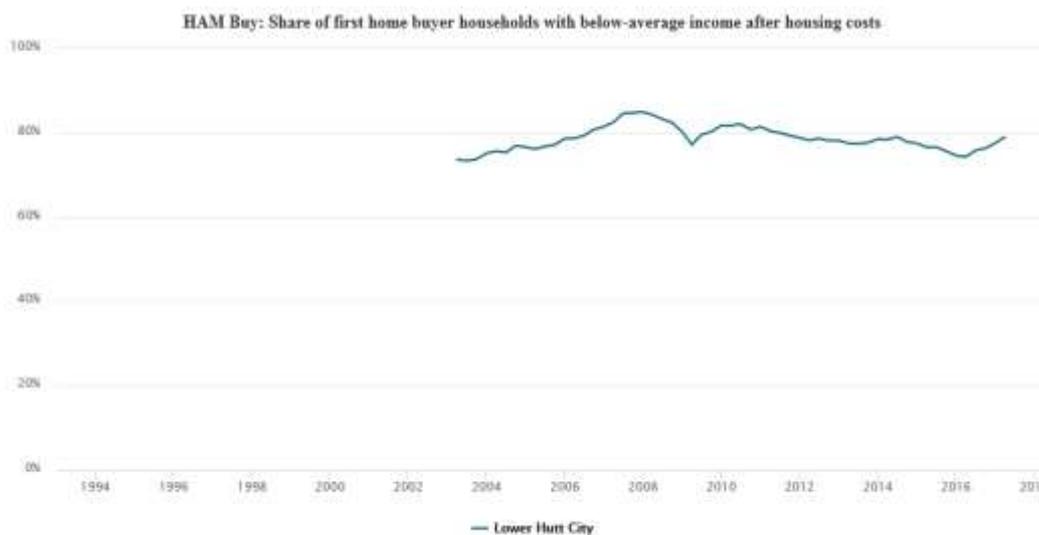
Household growth has not been updated on the dashboard. Although consent numbers increased overall from late 2013 to early 2017 the indicator shows that household growth continues to grow more strongly than consent for new dwellings. The number of consents has increased during 2018. There remains a mismatch 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.

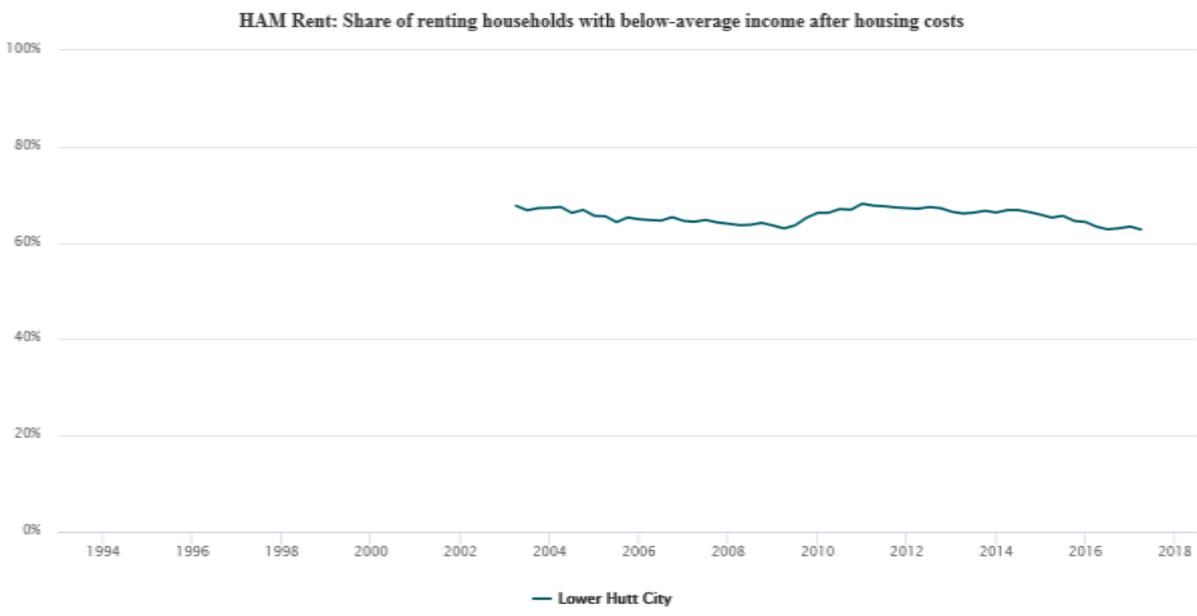
The percentage of first time home buyers with below average income after housing costs increased from 74.1% in March 2016 to 78.8% in March 2017. 83% of households in Porirua had below average incomes after paying their housing costs while in Wellington and Upper Hutt the percentages were 63% and 77%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

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



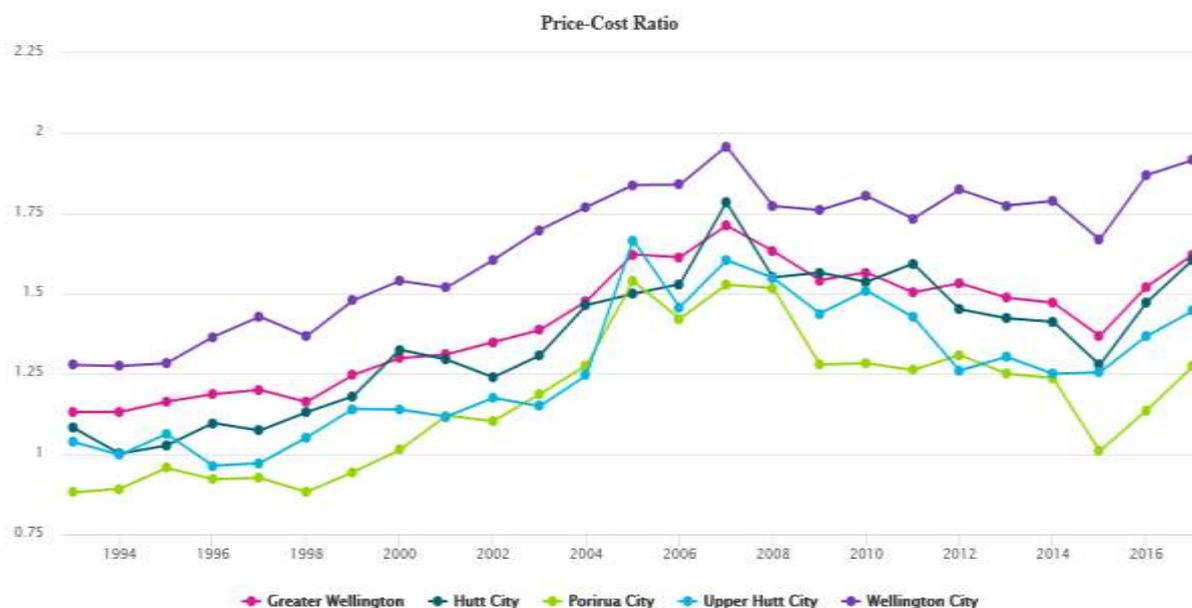
62.7% of households that rented accommodation had below average incomes after paying their housing costs. This has dropped slightly from 63.3% in March 2016. 44% of households in Wellington City and 62.6% of those in Upper Hutt had below average incomes after paying their housing costs. 68.4% of households 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 (data unchanged from last report)

### Indicator 10 – Housing price to cost ratio – Lower Hutt, region and neighbouring cities



Price-cost ratios show the extent to which house prices are driven by construction costs versus the cost of land (infrastructure-serviced sections). The price-cost ratio measures the relative contribution to house prices of:

- construction costs and purchase costs such as real estate agency fees
- land (infrastructure-serviced sections)

The indicator provides a general indication of how responsive land markets are to demand, relative to construction activity. If the cost of land is a significant and/or increasing share of house prices this indicates a shortage of sections and development opportunities relative to demand.

In Lower Hutt the price-cost ratio was just over 1 in 1993, indicating low-growth and a market where houses were selling for just over the construction costs of replacing them. The ratio increased to 1.530 in 2006, and reached its highest level at 1.784 in 2007 before the financial crisis. From 2006 until 2011 the indicator was over 1.5 – indicating that the costs of sections are over one-third of the price of a house. After 2011 the ratio decreased, reaching 1.269 in 2015 and increasing to 1.472 by 2016. This indicates that during this period – with a ratio of between 1 and 1.5 – that the supply of land for development was relatively responsive to demand. The ratio reached 1.606 in 2017 indicating that the supply of sections is not keeping up with the demand and that the price of land is increasing house prices. With increased population growth, demand, and house price increases the city needs to make more efficient use of available land for housing.

The price cost ratio across the region has been increasing from 2014. At a regional level the price cost ratio is currently 1.622.

## Rural – urban differential (data is unchanged from previous quarter)

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.

## Industrial zone differentials

This is the differential 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.

## Land concentration

The data for this indicator shows how much undeveloped residential land is available in the city, along with an index of land concentration control of land that is zoned as residential. The largest owners of undeveloped residential land are shown in table 1 in the appendix to the report for the June quarter of 2018.

Urban area	Valuation Date	Total Residential (ha)	Undeveloped Residential (ha)	Undeveloped Residential (%)	Land concentration index	Population_2017	People density (per ha)
Wellington Zone (city)	2017	3,543	178	5%	286	211,800	59.8
Porirua Zone	2016	1,768	240	14%	1,225	55,900	31.6
<b>Lower Hutt Zone</b>	<b>2016</b>	<b>3,249</b>	<b>291</b>	<b>9%</b>	<b>643</b>	<b>104,100</b>	<b>32</b>
Upper Hutt Zone	2016	1,475	180	12%	1,476	40,800	27.7
Kapiti	2015	1,773	139	8%	539	42,300	23.9

## 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