Housing and Business Market Indicators Quarterly Monitoring Report

Quarter ending December 2017

Report 3 – 9 March 2018

Contents

Summary

Introduction

Purpose and outline

Residential Indicators

Dwelling sales price and rent trends

1. Dwelling sale prices – Lower Hutt and wards (actual)
2. Change in house price index (SPAR) – dates
3. Dwelling rents – Lower Hutt and wards (actual)
4. Ratio of dwelling sales price to rents
5. Land value as a percentage of capital value

Supply and demand

6. Number of new dwelling consents
7. New dwelling consents compared to household growth

Housing Affordability

8. Share of first-time homebuyer households below the benchmark
9. Share of renting households below the benchmark

Price Efficiency

10. Housing price to cost ratio

Notes on indicators

Summary

Median sale house prices continue to increase – 1.6% higher compared to the end of the previous quarter in September and 12% higher across the city compared to the end of December 2016.

Mean weekly rent costs increase by 2.2% compared to the previous quarter and 9.7% up between December 2016 and December 2017. Strengthening household growth and a lower number of new dwelling consents indicates a mismatch between demand and supply in the city.

The price cost ratio in the city reached 1.606 in 2017, 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.

Strong house price growth continues in Wainuiomata – a 20% increase compared to December 2016 – while rent costs in the area also increased.

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.

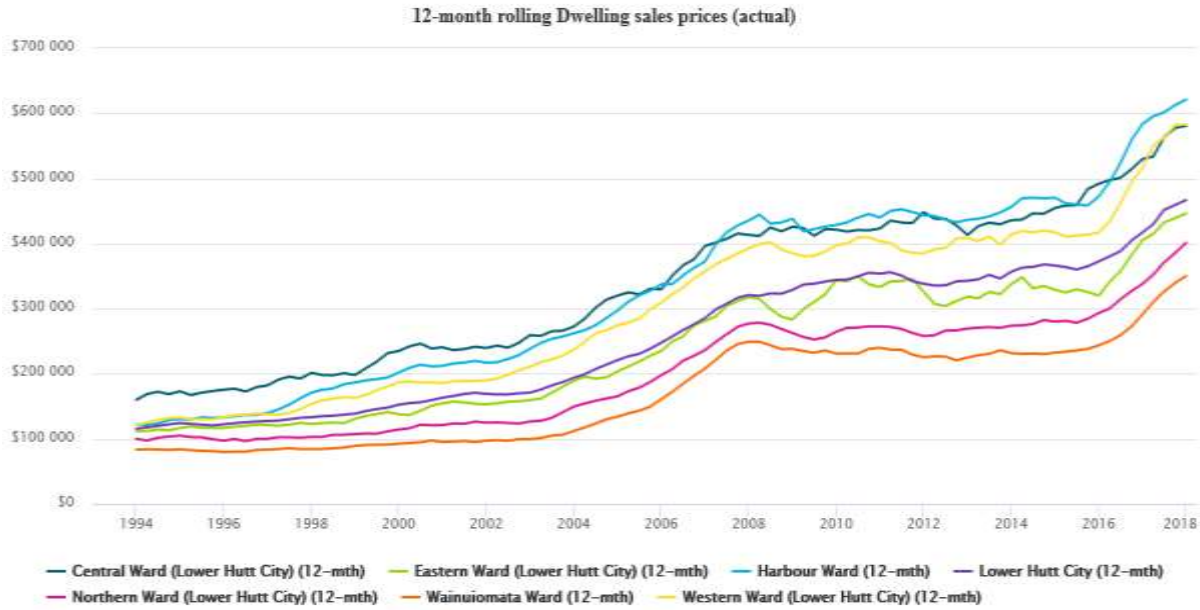
One challenge identified is gaining regular access to data on the availability/demand, and cost of business land in the city. The first report used data from research conducted by Bayleys, and Colliers.

[1] MBIE, National Policy Statement on Urban Capacity Development.

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.

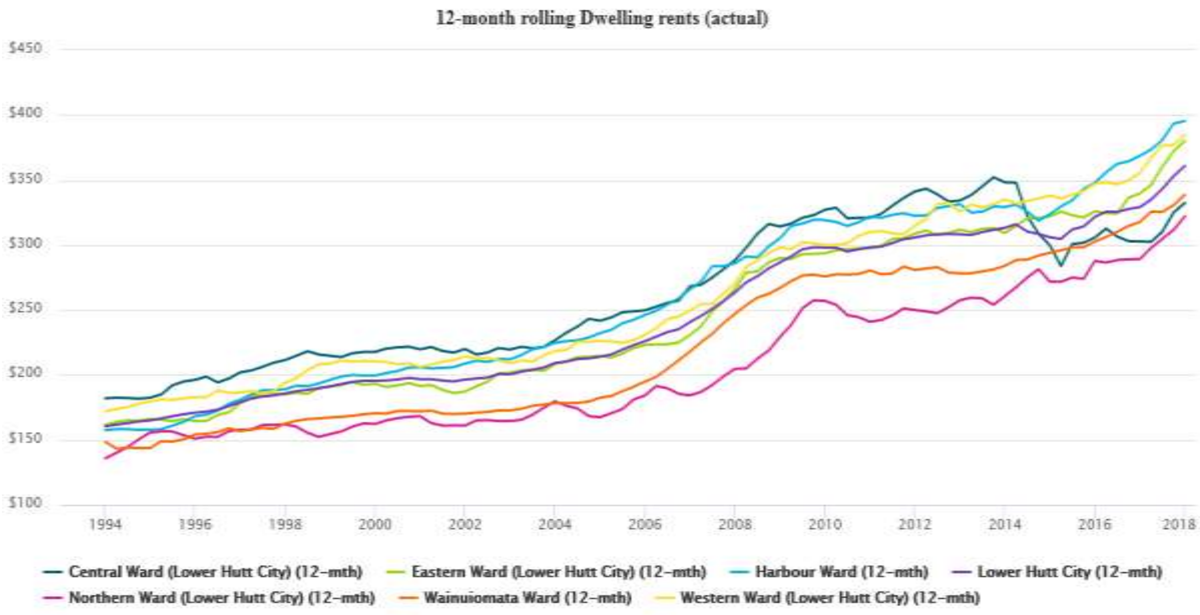
Residential Indicators

Indicator 1 – Dwelling sales prices (actual)



House prices in the city have continued to increase with prices 1.6% higher at the end of December compared to the end of September. Prices have increased by 11.9% between the end of December 2016 and the end of December 2017 – from $417,063 to $466,750. Prices in the wards and city as a whole have been increasing since early 2015 and particularly since the March quarter of 2016. Between December 2016 and the end of December 2017 median house prices increased particularly in the Harbour, Western, and Wainuiomta wards.
Harbour – 6.5%
Western – 12.8%
Wainuiomata – 20.4%

Indicator 2 – Dwelling rents (actual)

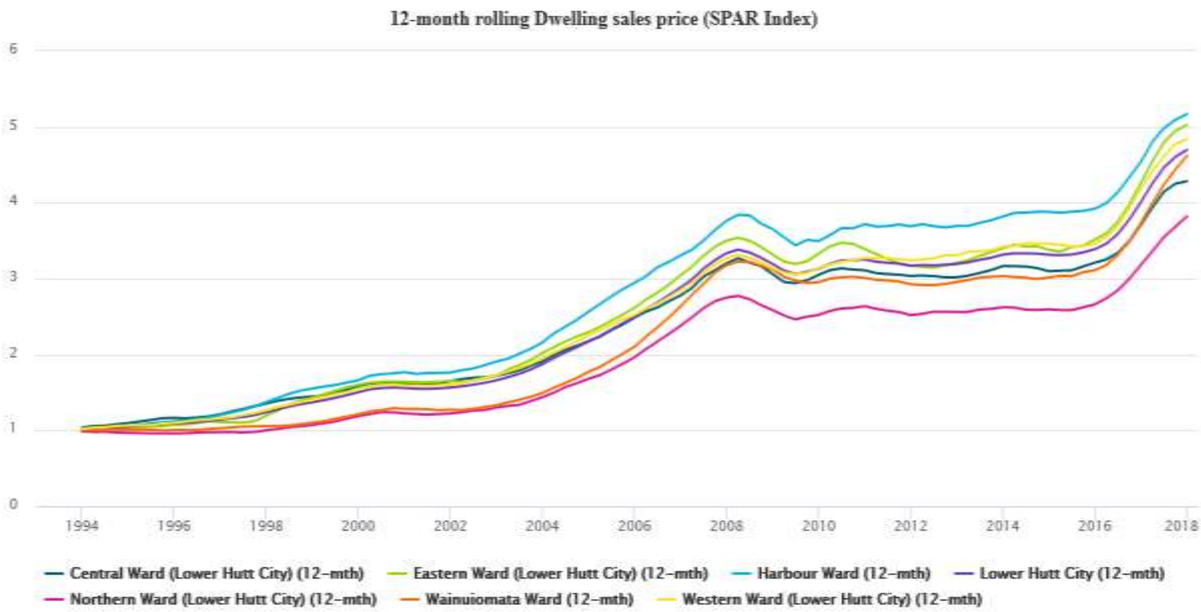


The mean weekly rent in the city at the end of the third quarter of 2017 is $361. This is an increase of 2.2% compared to the previous quarter and 9.7% between December 2016 and December 2017 – from $329 to $361 per week. Rental costs have been increasing in the city's wards from 2010, with rent prices in the central ward recovering after the decrease seen in 2014 – 2015.

Between December 2016 and December 2017 the following percentage increases in rental costs occurred in the city's wards.

Ward	Percentage increase
Western	8.1%
Harbour	7.3%
Central	9.9%
Northern	11.4%
Eastern	11.6%
Wainuiomata	6.6%

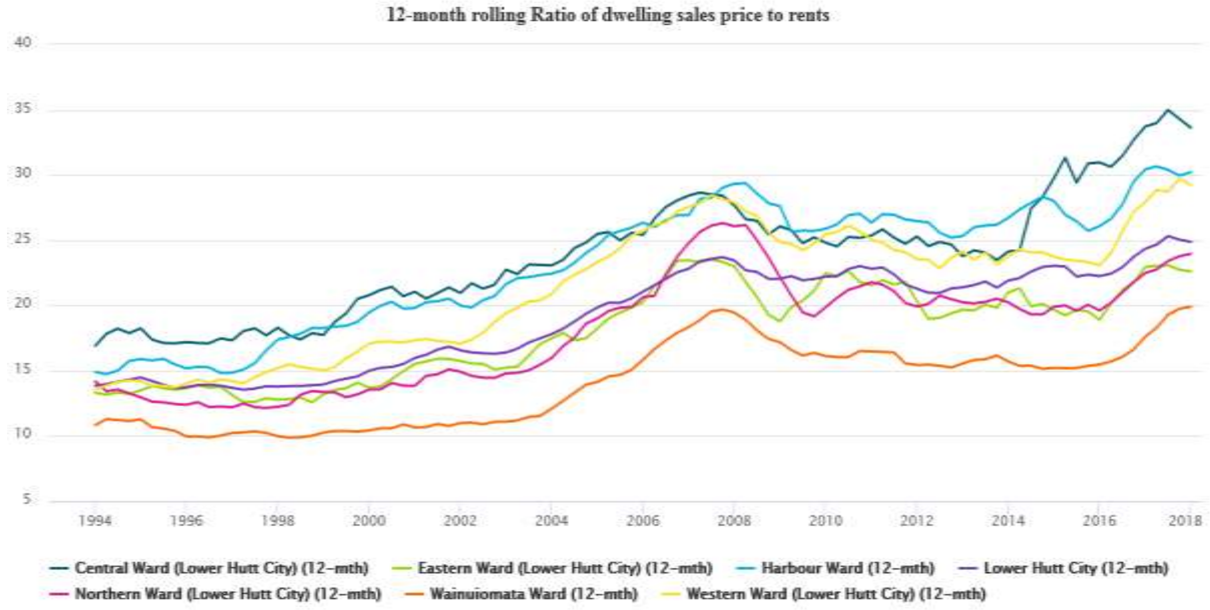
Indicator 3 – Change in house price index (SPAR)



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 2017 than in 1993.

Prices in the city are 4.7 times higher than they were in 1993, a slight increase from the 4.6 at the end of the previous quarter. At the end of December 2016 prices in the city were 4.0 times higher than in 1993. Prices at ward level have also increased with prices in Harbour ward 5.17 times higher than 1993 and prices in the Eastern ward 5.29 higher than 1993.

Indicator 4 – Ratio of dwelling sales price to rents



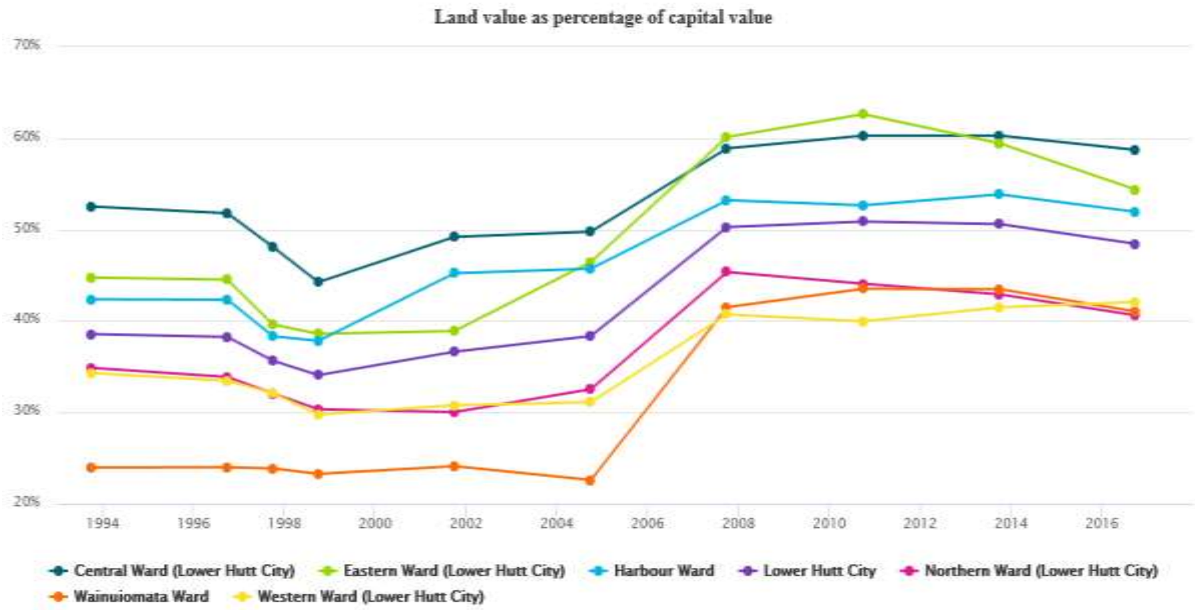
This ratio of house prices to rents gives an insight into the relationship between owning and renting and indicates changes in the ease or difficulty of moving from renting to home ownership. A higher house price/rent ratio reflects a larger gap between renting and buying.

The price to rent ratio for Lower Hutt in the December quarter of 2017 is 24.9, which means a median priced house is 24.9 times the mean annual rent paid. The ratio remains the same as in the September quarter. The ratio was 24.3 in December 2016. At ward level:

Ward	**Percentage increase**
Central	33.6
Eastern	22.6
Western	29.2
Harbour	30.2
Wainuiomata	19.9
Northern	23.9

The gap between renting and buying is smallest in the Wainuiomata ward.

Indicator 5 – Land value as a percentage of capital value



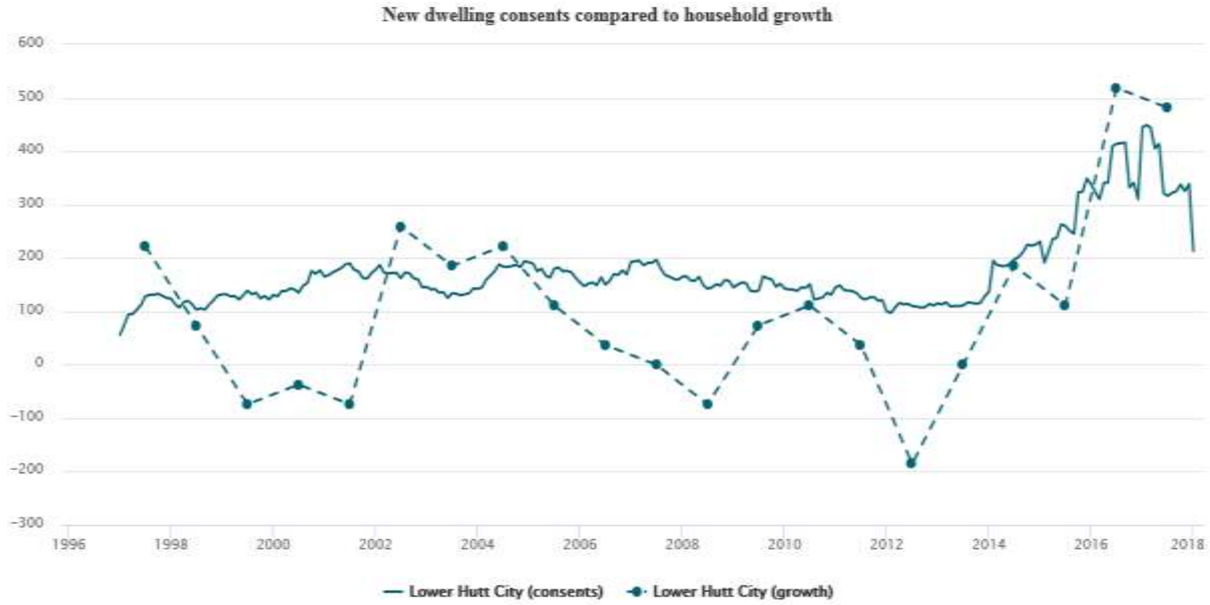
This indicator shows residential land values as a percentage of capital value. In September 2004 land value was 38.3% of the capital value while in September 2016 it had reached 48.4% of the capital value of a the house. Land value as a percentage of the capital value has remained stable or has fallen in the city since the valuations completed in 2007. 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.

Land constraints in central and eastern areas of the city particularly may mean that land in these areas is more expensive.

Supply and demand

Indicator 6 New dwelling consents by household growth

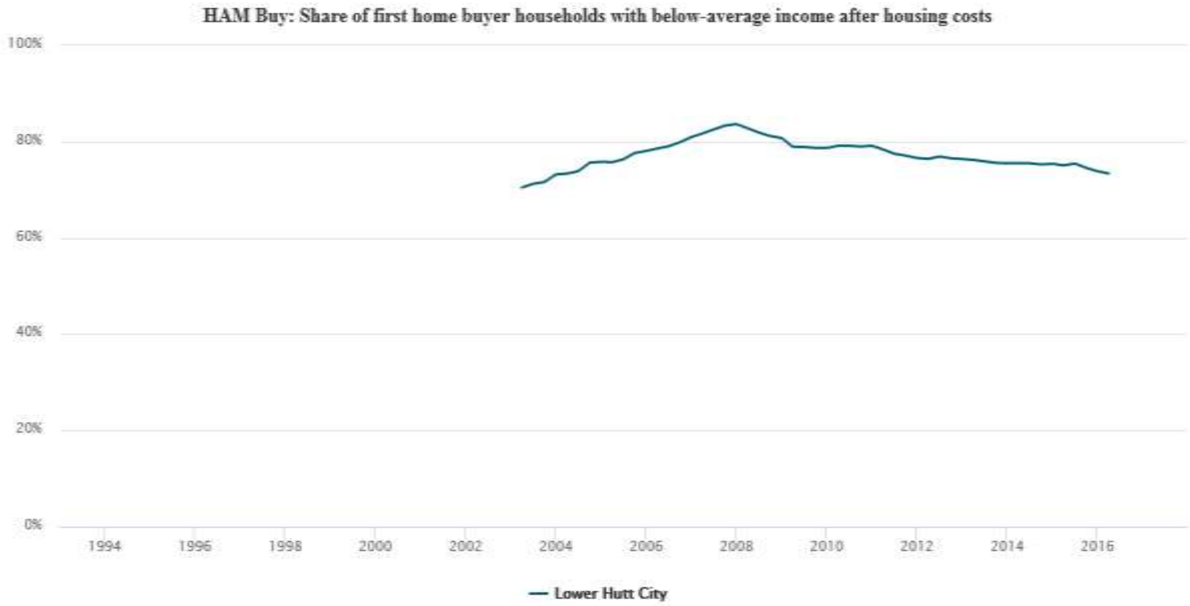


Household growth in the city has fluctuated since 2000. However, a period of falling household growth between 2010 and 2012 has been followed by relatively consistent increase in the period to June 2016. Although consent numbers have increased since 2014 the indicator shows that household growth is growing more strongly than consent for new dwellings. Consent levels have fallen throughout 2017. This indicates 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 to the end of March 2016.

Indicator 7 – HAM Buy – share of first home buyer households below the benchmark



For March 2016 the HAM indicator calculated that 73.3% of households in Lower Hutt would have below average income after housing costs. Affordability in the city declined between April 2003 and December 2007 with the share of first homebuyers below the benchmark increasing from 72.9% to 85.1%. Affordability improved from 2008 – due to lower interest rates, low levels of house price increases in the period to 2015, and increases in income. The affordability measure does not include data after the end of March 2016 and therefore only covers part of the recent period of price growth in the city between 2015 and September 2017. Mortgage rates currently remain at relatively low levels.

Other medium growth cities have lower levels of affordability e.g. Dunedin 79.5%, Porirua 79.8%, Kapiti Coast District 75.5%, with level of over 80% in both Tasman and Hastings.

Indicator 8 – HAM rent – share of renting households below the benchmark

Rent affordability has remained relatively stable in the period between March 2003 and March 2016 – moving from 64.3% to 63.2% overall. The number of renting households with below average income after paying their housing costs was at its highest, at 67.4% in December 2010, and has reduced in the period to March 2016. The percentage of households with below average incomes after housing costs in March 2016 was at a similar level to that of June 2009 when the rate was 63.3%. Rents may be more affordable because of some increases in income levels, although rental costs may still be increasing more than average incomes. Rents in the city have continued to increase in the period between March 2016 and September 2017.

At a regional level, affordability of rents is at its lowest in Porirua where 68.2% of households have below average incomes after paying housing costs. In Wellington City, 43.7% of households have below average income after housing costs.

Price Efficiency

Indicator 9 – 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 it is worth seeing if this pattern continues and consider whether further land can be released.

The price cost ratio across the region has been increasing from 2014. At a regional level the price cost ratio is currently 1.622. At the end of December 2017 the ratio for other cities in the region was:

Wellington City – 1.916

Upper Hutt City – 1.446

Porirua – 1.274

The price cost ratio for Lower Hutt is second only to Wellington City at a city level within the region.

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.

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