

# Housing and Business Market Indicators Quarterly Monitoring Report

**Quarter ending June 2017**

**Report 2 – 12 October 2017**

## Summary

- Strong increases in dwelling prices, particularly in Wainuiomata, and the Eastern and Western wards.
- Increasing rents across the city including strong increases in Wainuiomata, Eastern Ward, and the Western Ward.
- A decrease in new dwelling consents in 2016-2017 compared to 2015-2016.
- A mismatch between demand and supply indicated by household growth increasing more strongly than the number of consents, and increases in both rental costs and house prices.
- Affordability issues for both renters and first-time buyers although affordability in both sectors has improved.

## Introduction

Lower Hutt is the second largest city in the Wellington Region. The city has a mixture of rural, rural-residential, and urban areas. The majority of the area is rural with steep hills on both the eastern and western sides and the city has a limited amount of flat land on the valley floor.

The National Policy Statement on Urban Development Capacity (NPS-UDC) requires Council to monitor various indicators to assess the feasibility and affordability of development within the district. Policy 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.’ (MBIE, National Policy Statement on Urban Capacity Development)

Lower Hutt City’s housing market is predominantly driven by residential demand. In 2013 only 3.6% (1410) of the city’s dwellings were empty, which is below the national and regional average. Household growth has increased from 2014 and while consents for new dwellings have also increased overall between 2011 and 2016, the growth in households is now exceeding consent levels. This may be one barrier to the supply of housing and the gap is also likely to be one factor that is influencing house price increases in the city. The city’s population was estimated at 103,400 at 30 June 2016 and this figure includes 800 people through natural increase and 500 through migration. Previous estimates and projections show the city losing population through migration. The current Statistics New Zealand medium series projections show that the city’s population may grow to 106,800 in 2023, 107,800 by 2028, and reach 108,100 by 2033, before falling to 106,700.<sup>1</sup> Council works with .id Consulting Ltd to provide population forecasts which take account of Council’s development plans. The current forecast shows a different pattern of growth to that of Statistics New Zealand with that the city’s population expected to grow to more slowly to 103,475 by 2023, 104,968 by 2028, and 106,481 by 2033. Growth thereafter continues, reaching 108,048 in 2038 and 109,885 in 2043.<sup>2</sup>

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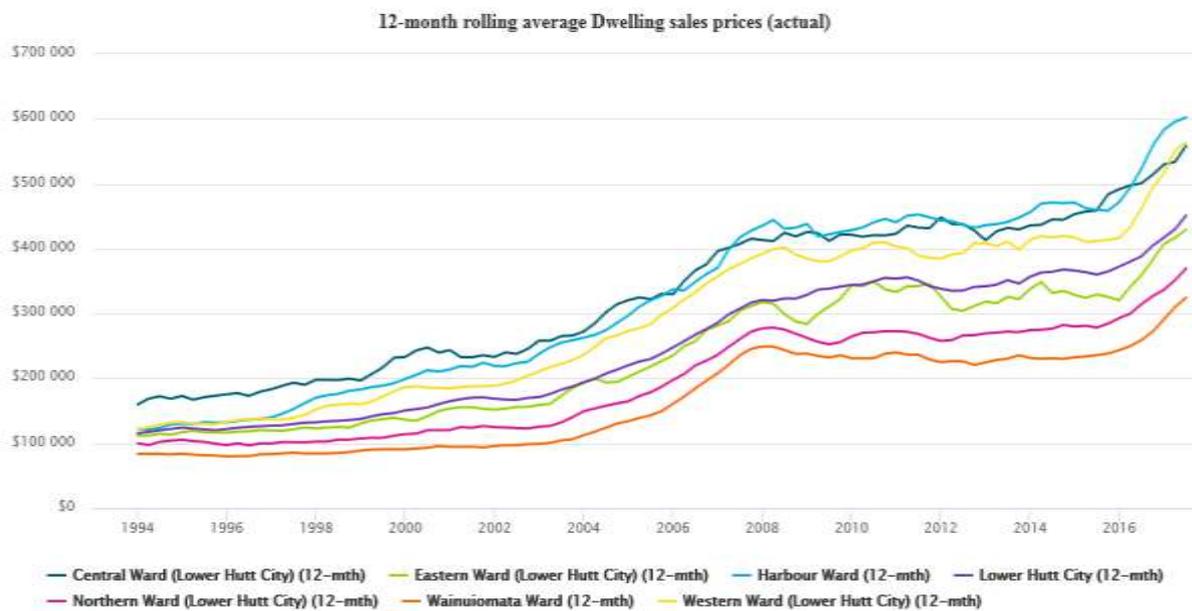
<sup>1</sup> Statistics New Zealand, NZ.Stat. Subnational population projections 2043 update. Medium series.

<sup>2</sup> Forecast .id <http://forecast.idnz.co.nz/hutt/population-households-dwellings>

Recently, the considerable increase in the house price index for wards such as Wainuiomata, Northern and Eastern Wards may indicate a changing pattern of demand for housing in the city and region. With lower starting house prices compared to other areas the strong percentage increases in selling prices indicates that buyers are becoming more interested in the lower priced housing in these areas.

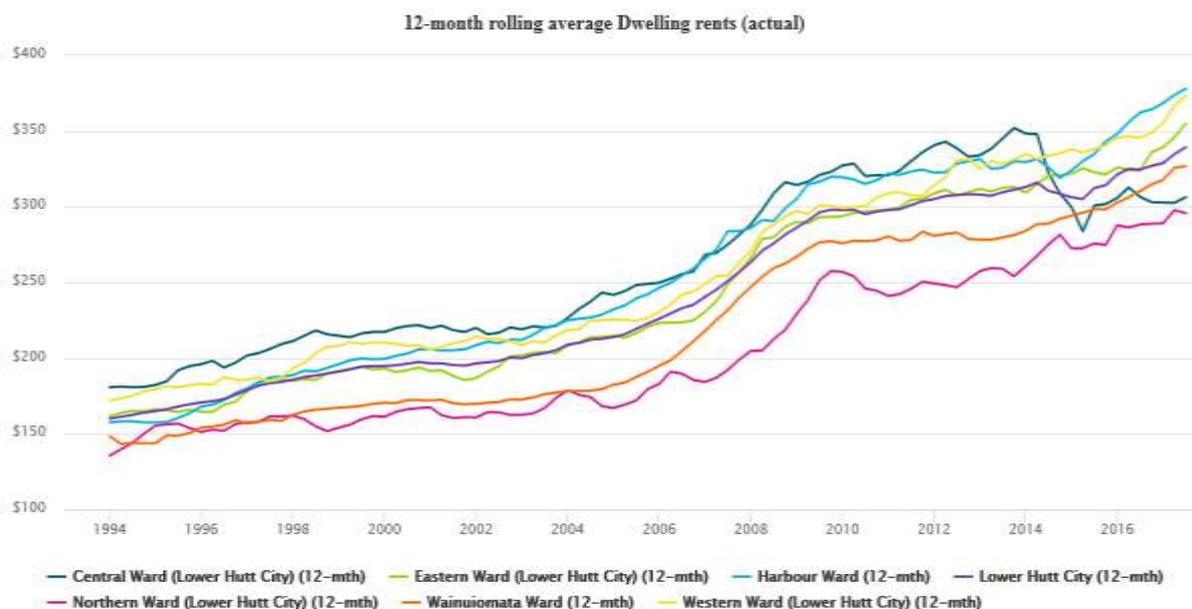
## Dwelling sale price and rent trends

### Dwelling sale prices – City and wards comparison



Sale prices are determined by the interaction of demand and supply, including for investment properties. Following a period of fluctuating prices between 2010 and 2015, the sale prices for dwellings in Lower Hutt increased strongly between June 2016 and June 2017. The median sale price of dwellings increased by 15.8%, from \$388,313 in June 2016 to \$449,875 in June 2017. The increase in Wainuiomata between June 2016 and June 2017 was 25.6% while prices in both the Eastern and Western wards also increased particularly strongly, with percentage increases of 19.6% and 21.8% respectively.

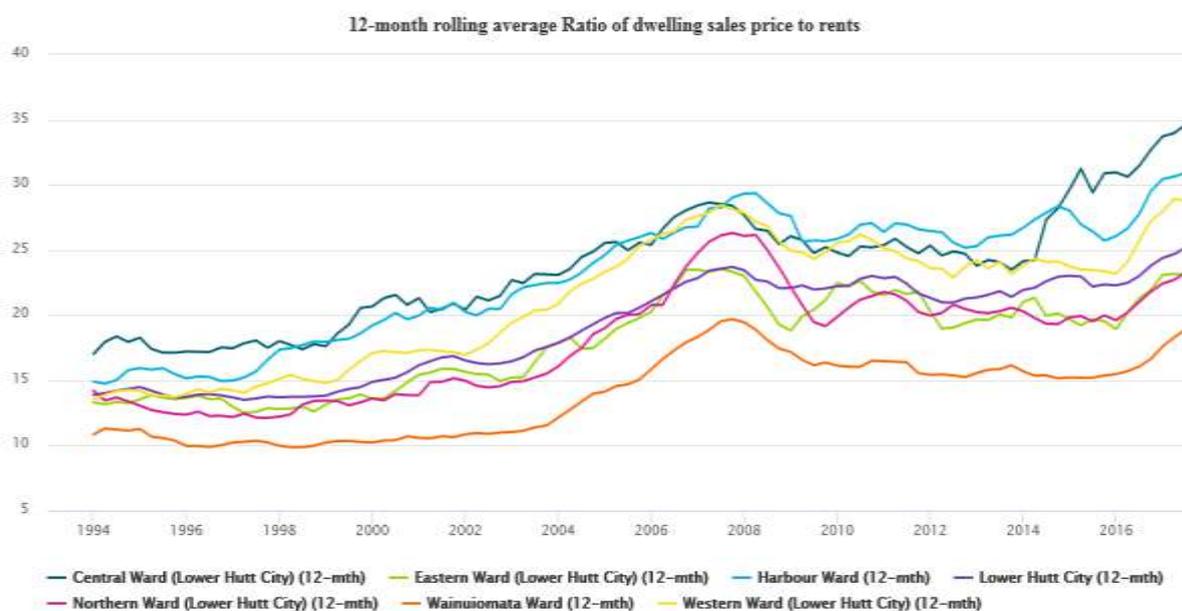
### Dwellings rents – City and wards comparison



Rents are determined by the interaction of demands for and supply of homes. *This indicator reflects nominal mean rents as reported in new rental bonds lodged with MBIE.*

The mean rent in Lower Hutt increased by 5.5% from \$325 in June 2016 to \$343 in June 2017. Rents increased strongly between 2002 and 2009, reaching \$296 per week in September 2009, and have fluctuated in the period to 2017. Rents have also increased at ward level apart from in central ward where rents decreased from \$348 in April 2014 to \$248 in April 2015 before increasing in the period to June 2017. Rental costs in other wards have increased between June 2016 and June 2017, with increases of 11.1% in the Eastern ward and 9% in the Western ward and an increase of 13% in rent costs in Wainuiomata. The lowest increases were in the Northern Ward and Harbour ward at 5.9% and 5.2% respectively.

*Price to rent ratio – city and ward comparison*



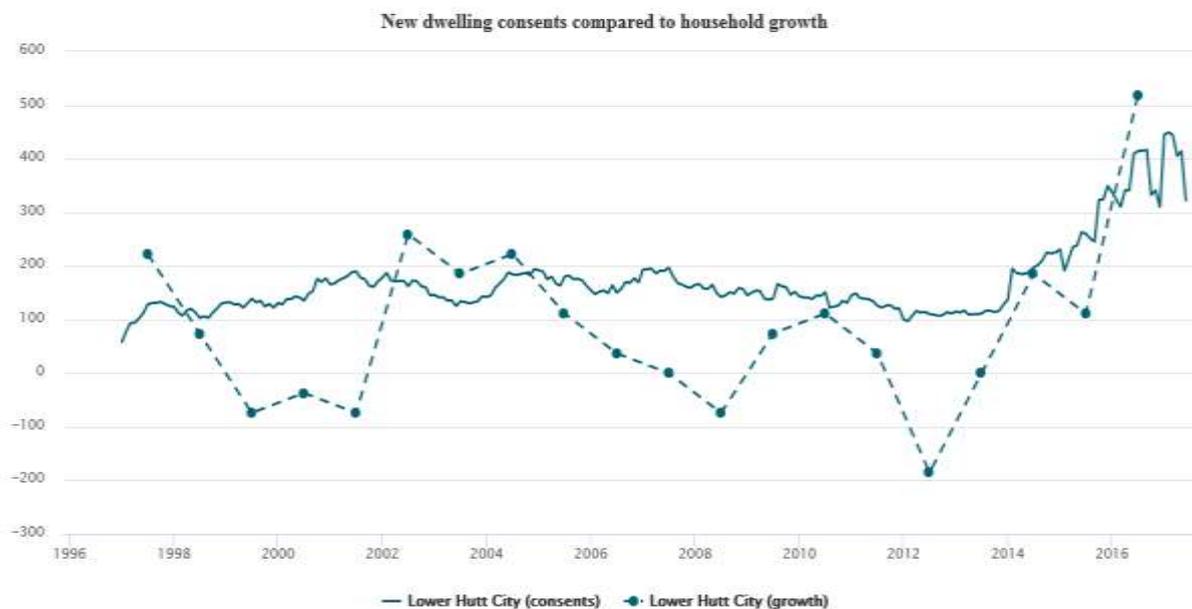
*The price to rent ratios shows the relative attractiveness of renting versus owning. Higher ratios also indicate that rental yields for investors are lower. This indicator reflects nominal mean rents as reported in new rental bonds lodged with MBIE.*

Lower Hutt’s price to rent ratio is currently 25.2. This means that it would take around 25 years of rent payments to pay for a median priced house. The ratio fluctuated between 2010 and 2015 and has increased consistently in the period between June 2016 and June 2017.

The ratio for the region in June 2017 was 24.6. The ratio in Lower Hutt has been increasing in the city as house price growth has increased compared to rents. The ratio in Wellington City is 28; Porirua 24.4; Upper Hutt City 24.8; and Kapiti Coast 23.7 so the data indicates that moving from renting to home ownership in Lower Hutt is similar to the situation in Porirua and Upper Hutt but easier than in Wellington City.

## New construction

### Residential dwelling consents versus household growth



When household growth is stronger than the increase in new dwelling consents, it may indicate barriers to supplying new homes to meet demand.

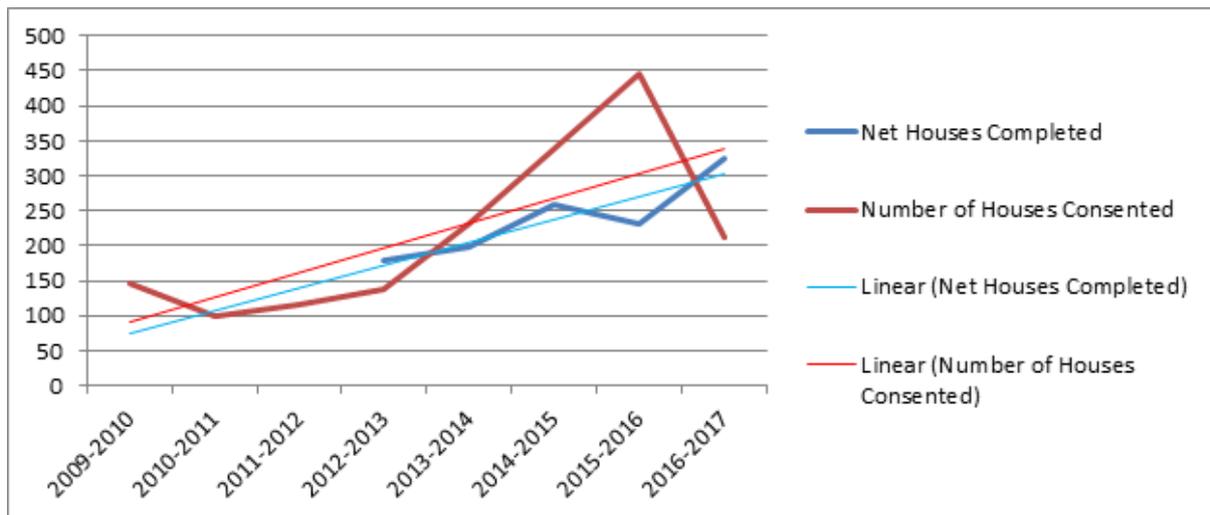
A period of falling household growth between 2010 and 2012 has been followed by relatively consistent growth in the period to June 2016. Although consent numbers have increased overall since 2014, household growth is currently growing more strongly than consents for new dwellings. This indicates a mismatch between demand and supply and is likely to be a factor in the increases in house prices and rent costs.

There is a similar mismatch between household growth figures and consent numbers in Porirua and Upper Hutt while in Wellington City figures for June 2016 show a larger divergence between household growth at 1577 and consents at 640. The situation in Wellington City is primarily driving the large gap between household formation and new dwelling consents at regional level.

### Residential dwelling consents – Hutt City

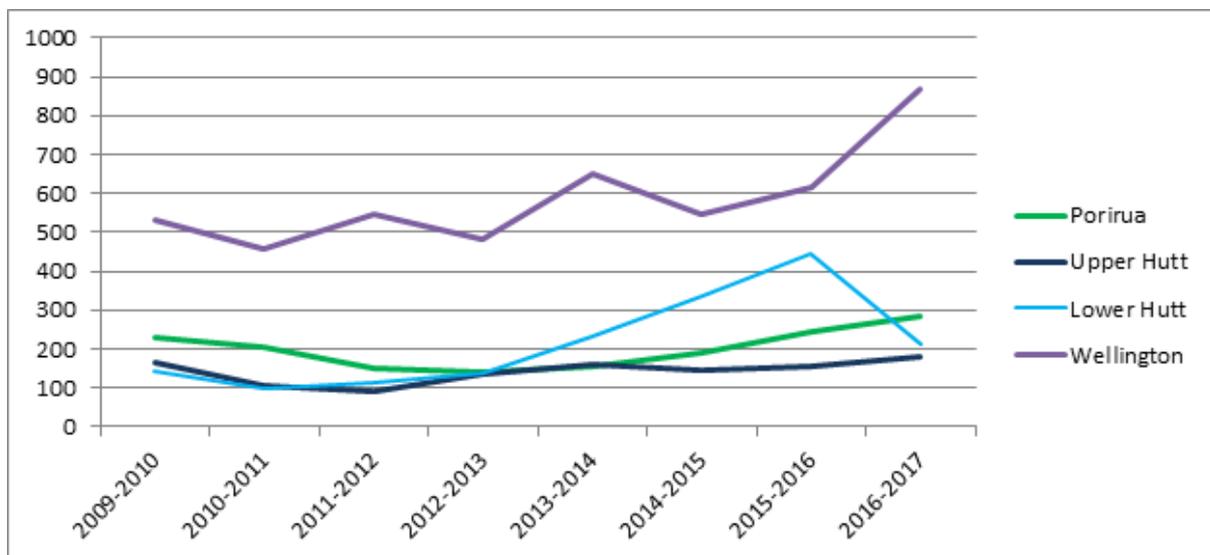
The number of consents is an indicator of the supply of new dwellings in the city. Residential consents increased on an annual basis between 2011 and 2016. Although, there has been a considerable decrease in the number of consents in 2016-2017 compared to 2015-2016, the overall trend remains positive. Council's data also shows that the number of completions has been increasing and 325 dwellings were completed in the 2016-2017 financial year.

*Dwellings consented and completed*



Comparison with Porirua, Upper Hutt, and Wellington City, shows that after a period of strong growth from 2012-2013 to 2015-2016 consents for new dwellings in Lower Hutt are now falling behind those occurring in these areas. Council is expecting a number of consents in the current financial year e.g. Ryman's (47), Lane Block (circa 80), and 30 units for Housing New Zealand in Naenae.

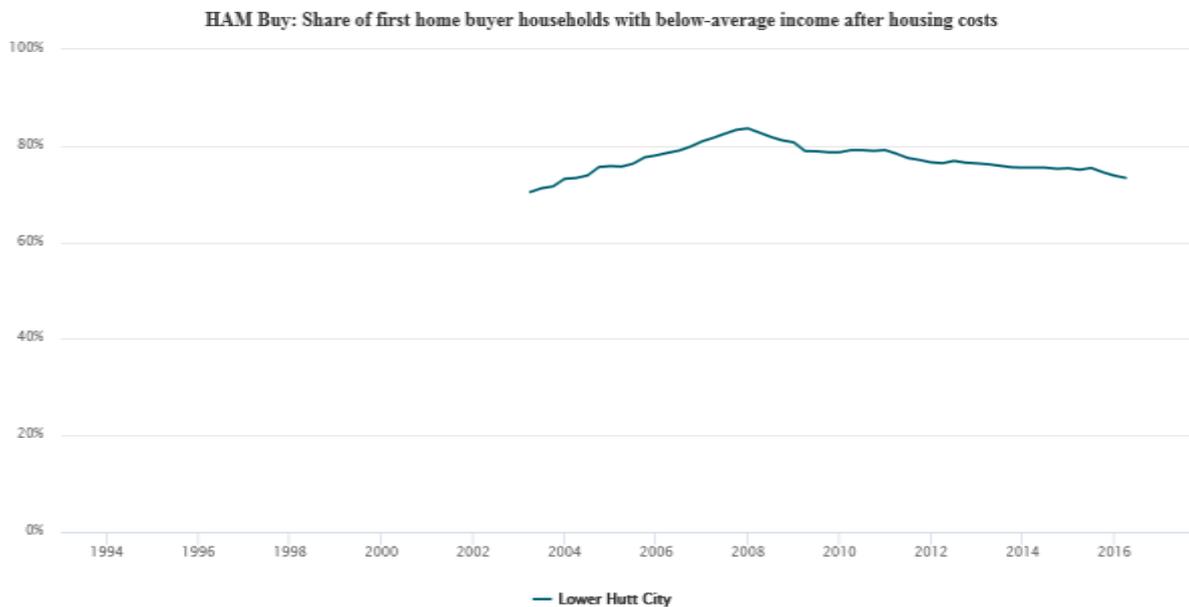
*Consents in Hutt City compared to Wellington, Porirua, and Upper Hutt*



There have been strong increases in dwelling prices in a number of areas in the city and rent levels have also increased. Although consent numbers in the city increased from 2012-13, numbers have recently decreased, with household growth continuing. Increases in dwelling prices and rents, with a falling level of consents, can indicate that housing supply in the city is becoming constrained and not responding to demand. (See MBIE guidance p.99. as well)

## Housing affordability trends

### Housing Affordability Measure for buyers – Lower Hutt

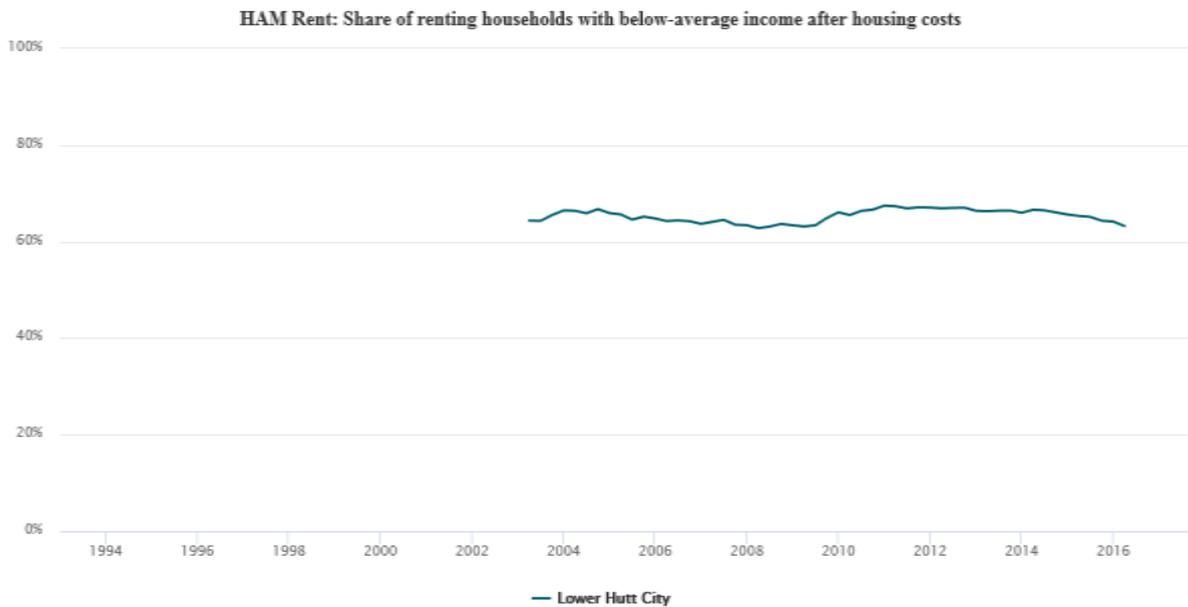


The Housing Affordability Measure (HAM) measures trends in housing affordability for the first home buyer household.<sup>3</sup>

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 has improved since 2008 – possibly due to lower interest rates, low levels of house price increases in the period to 2015, and wage increases. The affordability measure does not currently include data after the end of March 2016 and therefore only covers part of the period of strong price growth in the city between 2015 and June 2017.

<sup>3</sup> 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. Households are classified as being either above or below a 2013 National Affordability Benchmark. 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. The indicator has a one-year lag so does not identify recent trends.

## Housing Affordability Measure for renters – Lower Hutt



A rising trend indicates that affordability for renters is worsening.<sup>4</sup>

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 decrease in affordability between March 2009 and December 2010 could be because rent increased at a quicker pace than wages during this period. One factor in improved affordability since 2013 is the stronger income growth in the city. Average rents between June 2013 and June 2016 increased by 4.8%. There was stronger household income growth in the latter part of the period i.e. 2013 (4.7%), 2014 (6.5%), and 2016 (15.2%), compared to the period between 2010 and 2012 when annual median household income growth was 0%, – 1.6%, and 0.3%. Median household income fell by 4.3% between 2014 and 2015.

### *Change in the house price index 2016 to 2017*

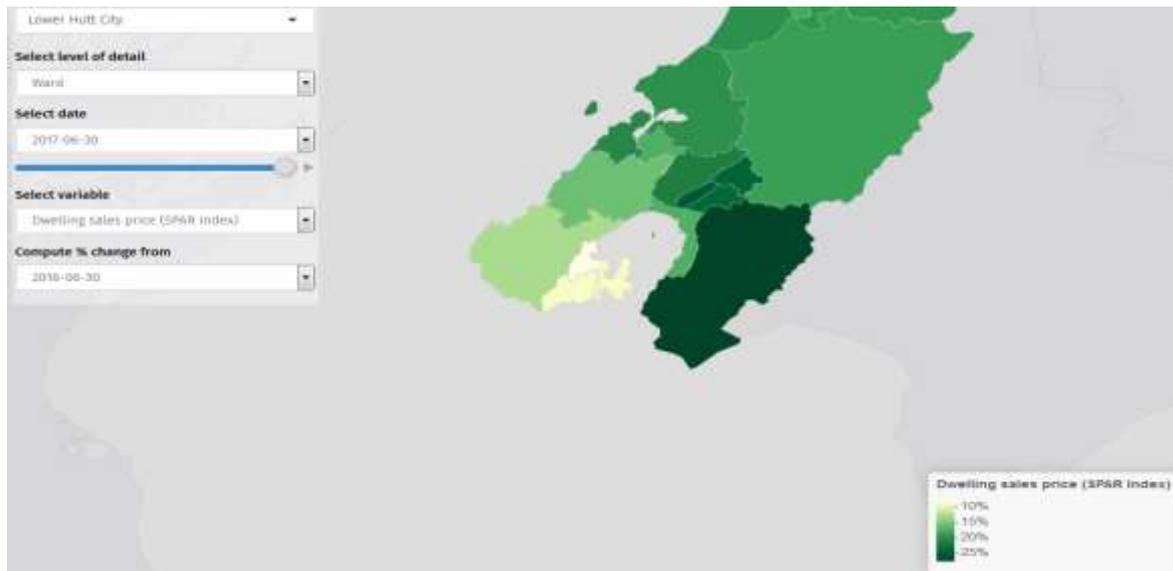
The Sales Price Appraisal Ratio (SPAR) provides an index of percentage change in dwelling sales prices relative to a common base year. It is constructed by comparing the sales price of each dwelling sold in a period with its valuation estimate. It adjusts for the composition and quality of the dwellings sold over each period.

Between June 2016 and June 2017 the percentage change in dwelling prices were higher in Lower Hutt wards than in areas of Wellington, Porirua, and Upper Hutt. The price index increased by over twenty percent in all wards apart from Harbour. The largest increase was in Wainuiomata – 27%, while an increase of 24% was seen in Northern Ward, 25% in the Central Ward prices, 23 in Eastern, and 21% in the Western Ward. This could indicate changing patterns of demand in the region and higher growth in some of these areas may indicate increasing desirability or overspill from areas where demand cannot be met or prices are higher to begin with. Some of the areas of Lower Hutt

<sup>4</sup> The indicator has a one-year lag so does not identify recent trends.

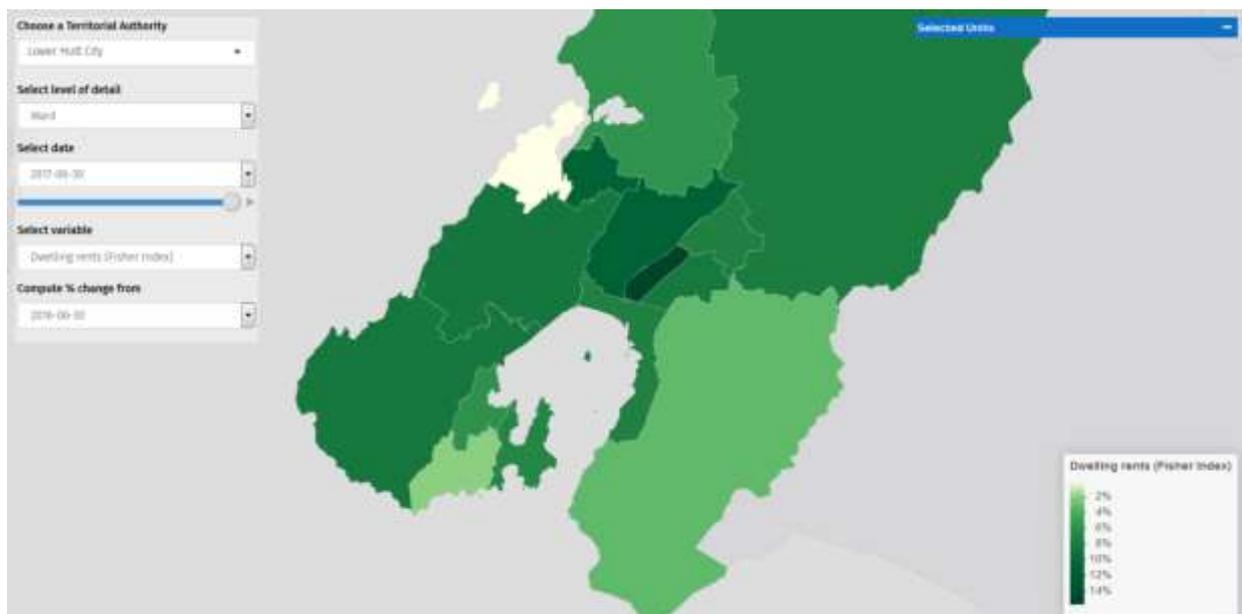
which experienced the most rapid increases in prices e.g. Wainuiomata, had lower starting prices than other areas in the city and the wider region and this is an indication that buyers were being attracted to lower priced housing in these areas.

*'When areas with lower starting dwelling prices experience significant price growth, it may indicate the effect of constraints on housing supply leading to 'spillover' of demand into formerly low-priced areas, or changes in the quality of amenities in different areas. This may also have implications for housing affordability, as people who are priced out of low-priced areas may have fewer alternatives.'*  
 MBIE NPS doc p.107.



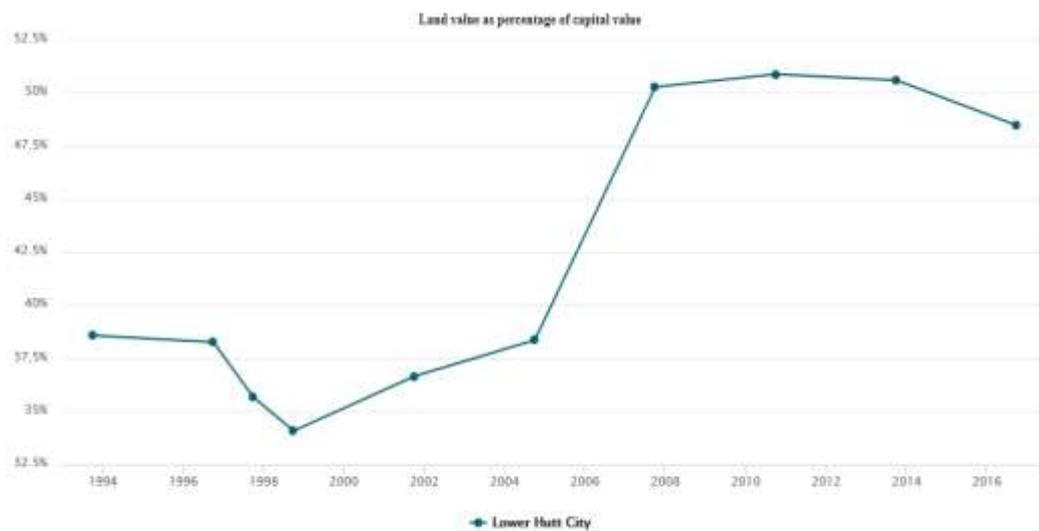
*Change in rent price index (Fisher) between June 2016 and June 2017*

The index shows increases in rents across the city. The largest increases occurred in Central Ward 15.6% and Western Ward 11.1%. There were increases of 7.1% in Harbour Ward 7.2% in Northern Ward, and 8.2% in the Eastern Ward. The lowest increase was in Wainuiomata at 3.1%. The index increased by 7.6% in Upper Hutt and increased between 1% and 8% in areas of Wellington City.



## Land

### *Land value as a percentage of capital value*



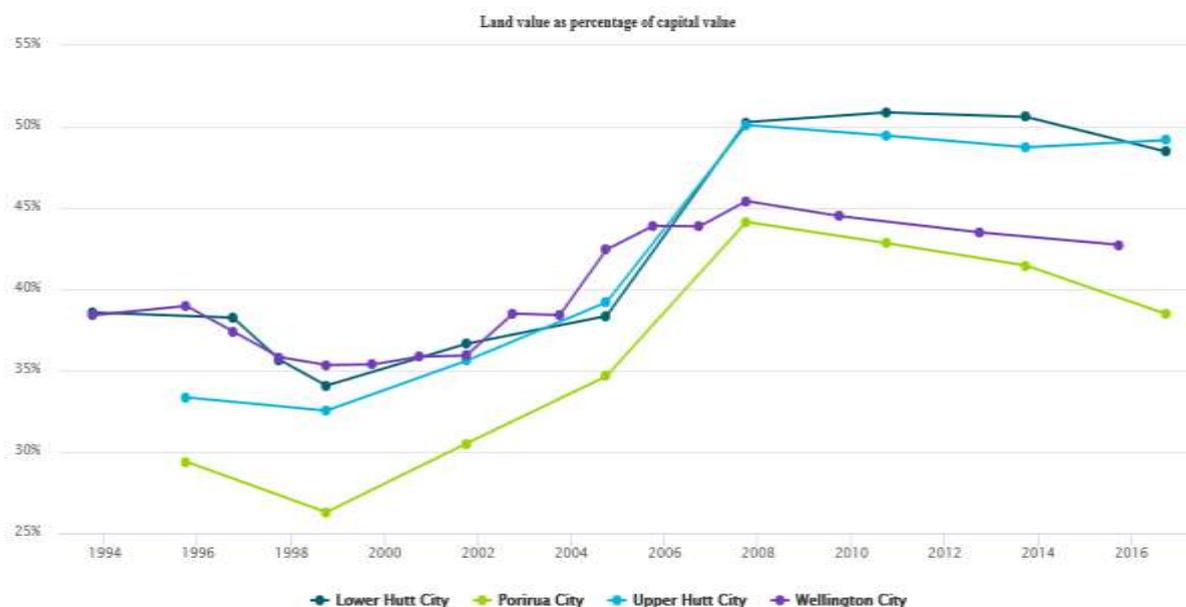
This indicator shows the share of house values that are accounted for by land prices at each valuation period. A higher ratio indicates that land is more valuable relative to the buildings that occupy it.

In September 2004 land value as a percentage of the capital value of the dwelling was 38.3% in Lower Hutt. By 2007 the land value had reached 50.2% of the capital value. Between 2007 and September 2016 the land value decreased slightly to 48.4% of the capital value.

At ward level, the land value as a percentage of the capital value of the dwelling varies between 40.6% in the northern Ward and 58.7% in the Central Ward. The land value as a percentage of the capital value of the dwelling is over 50% in Central – 58.7%, Eastern – 54.3%, and Harbour – 51.9%.

Land value as a percentage of the capital value of the dwelling is relatively high in the city compared to neighbouring cities in the region.

## Cities in the region



The value shown for Wellington City is at September 2015.

## Business market

This section includes data on CBD office vacancy rates, retail vacancy rates, and industrial vacancy rates. This data covers the period between 2015 and 2017 depending on the source available.

### Retail vacancy rates – Lower Hutt 2016

In its report on retail trends in Greater Wellington Bayleys reports the following for Hutt City.

*‘Vacancy is at multi year highs in Lower Hutt, 13.7% in 2016, up from 9.3% in 2015. Retail in Lower Hutt is increasingly demonstrating a two tier market; Queensgate Shopping Centre versus everyone else. However, the Stride managed shopping centre has seen an increase in vacancies when compared to one year earlier. Demand for strip retail in the precinct is weak, although agency reports strong demand for tenancies surrounding and opposite mall entrances all vying to gain the high numbers of foot traffic those locations deliver.’<sup>5</sup>*

The 2015 annual report showed vacancies had increased from 6.4% in 2014 to 9.3% in 2015. The vacancy rate in High Street in 2015 was 30% and therefore a considerable driver for the Hutt City rate overall.<sup>6</sup>

*‘Hutt City Council has made significant moves to upgrade and beautify this area, with a view to increase in pedestrian counts. Should they be successful, a resultant rise in leasing activity should become evident within the 2016 vacancy survey. At this stage however, agency reports suggest that the vacancy rate is skewed to the positive due to this street being filled with tenants paying little to no rent, for example pop-up stores for charity, and art spaces for children, with the guise of seeming occupied.’*

<sup>5</sup> Bayleys Research 2016 <https://www.bayleys.co.nz/media/c5e5e972-163e-48d3-9f4b-e080b5587309>

<sup>6</sup> Bayleys Research 2015 <https://www.bayleys.co.nz/media/3dc49d31-26a0-4586-91d7-dc6a92720bf4>

### Industrial area data

Colliers International Market Indicators Report for 2016 and 2017 show the following for areas of Lower Hutt at November 2015 and November 2016.<sup>7 8</sup>

|                    | Average overall land values (\$/m2) |       | Average overall market yields (%) |      | Average overall warehouse rents (\$/m2) |       | Overall vacancy rates (%) |      |
|--------------------|-------------------------------------|-------|-----------------------------------|------|---|-------|---------------------------|------|
|                    | 2016                                | 2017  | 2016                              | 2017 | 2016                                    | 2017  | 2016                      | 2017 |
| Seaview/Gracefield | \$313                               | \$313 | 8.5                               | 8.2  | \$101                                   | \$111 | 4.1%                      | 2.7% |
| Petone/Alicetown   | \$650                               | \$650 | 8.6                               | 7.9  | \$114                                   | \$121 | 4.5%                      | 4.6% |
| Wingate/Naenae     | \$188                               | \$188 | 8.9                               | 8.5  | \$88                                    | \$93  | 3.4%                      | 3.9% |

The 2017 report draws attention to the growing interest in the Petone Market with the take up of around 27,000 sqm of space by Bunnings, Briscoes/Rebel Sport, Countdown, and Kmart.

### Construction costs – national

Higher construction cost inflation may indicate that the industry is reaching capacity.

Although residential construction costs stabilised in the period from 2008 to 2011 the period since has seen strong growth in these costs.<sup>9</sup> Colliers reported that the costs of residential construction increased by 6% in 2016. This is above the 3.7% long-term average of cost increases. Construction costs in the commercial sector increased by 5.6% in 2016. Statistics New Zealand Business Price Index for the March 2017 quarter shows increasing construction costs.

<sup>7</sup> Market Indicators Report 2016 – New Zealand Industrial: Got Stock, (Colliers International, 2016)

<sup>8</sup> Market Indicators Report 2017 – New Zealand Industrial: A Well Oiled Machine, (Colliers International, 6 September 2017)

<sup>9</sup> Colliers International, New Zealand Research Report – The cost of construction (September 2016)