Housing and Business Market Indicators Quarterly Monitoring Report

Quarter ending March 2017

Report 1: 24 August 2017

Summary

- Strong increases in dwelling prices in Wainuiomata, Northern Ward, and Eastern Ward.
- Increasing rents in Wainuiomata, Northern Ward, and Eastern Ward, with decreases in the Western and Central wards.
- A decrease in new dwelling consents in 2016-2017 compared to 2015-2016.
- A mismatch between demand and supply indicated by household growth outstripping the number of consents.
- Affordability issues for both renters and first–time buyers although affordability in both sectors has improved slightly between 2014 and 2016.

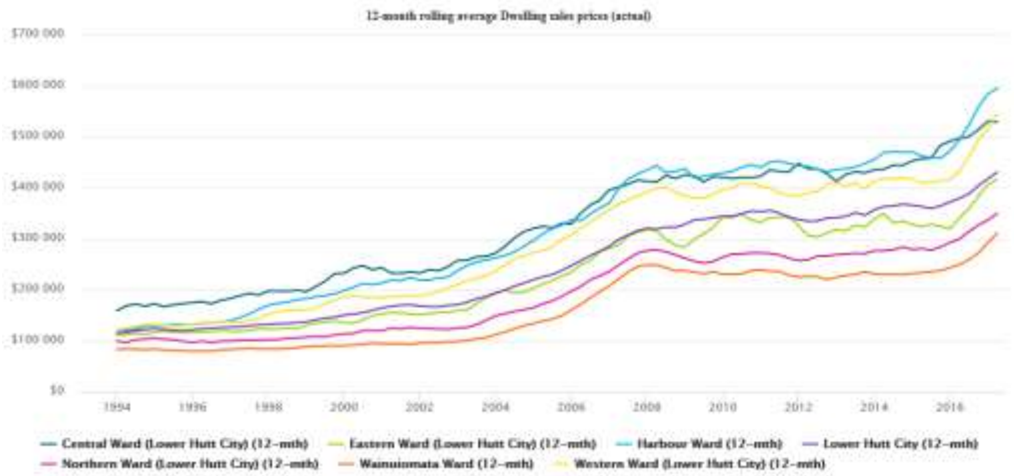
Introduction

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.

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.

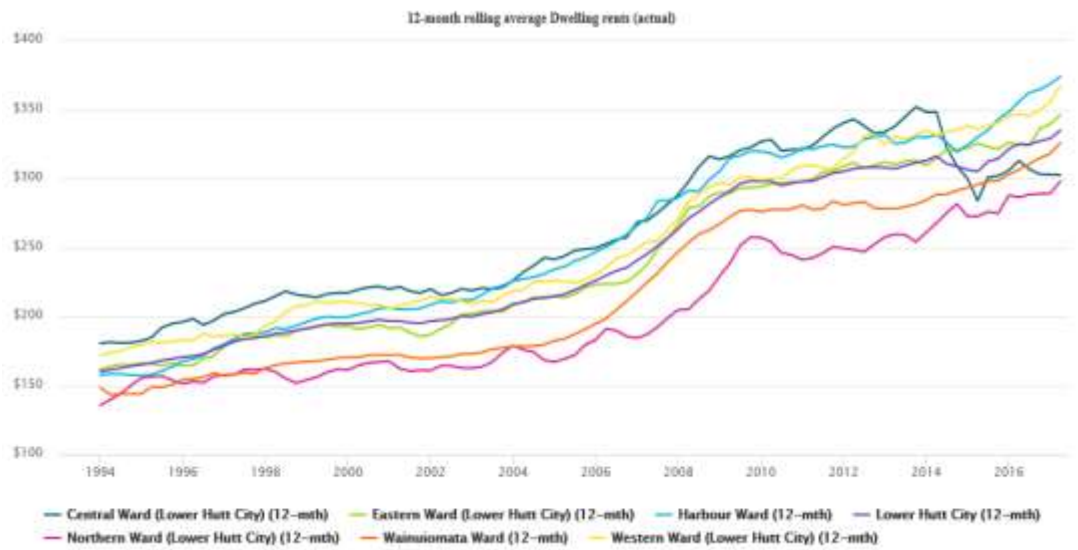
Dwelling sale price and rent trends

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 2015 and April 2017. The median sale price of dwellings in the city increased by 19.6%, from $360,000 in June 2015 to $430,688 in April 2017.

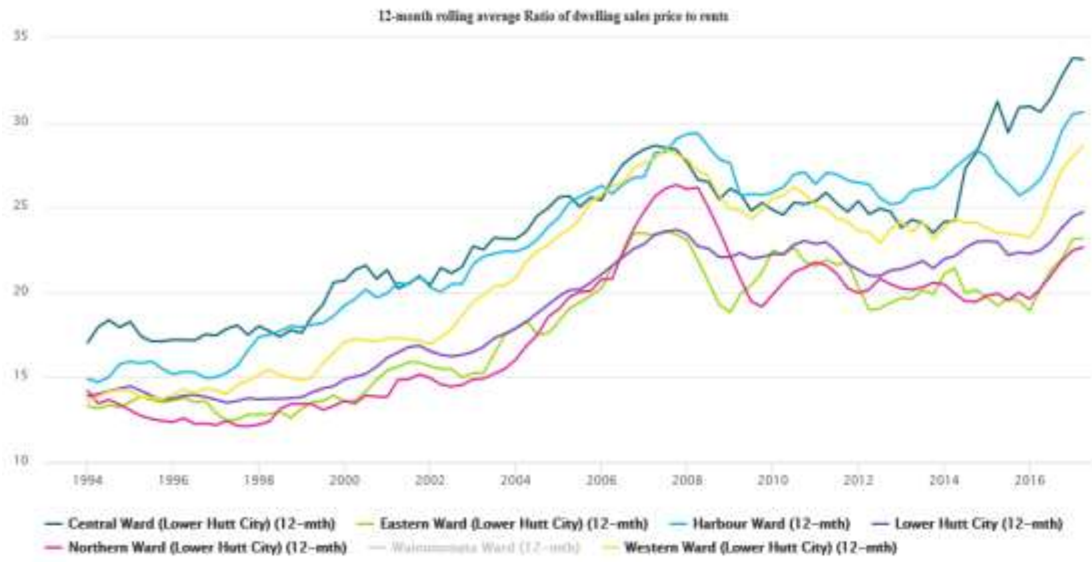
Dwellings rents – City and wards comparison



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 for a home in Lower Hutt in April 2017 was $335 compared to $298 in April 2010. Rents have increased steadily in the intervening period. Rents have also increased at ward level apart from in central ward where rents fell from $348 in April 2014 to $248 in April 2015 before increasing slightly in the period to 2017.

Price to rent ratio – city and ward comparison

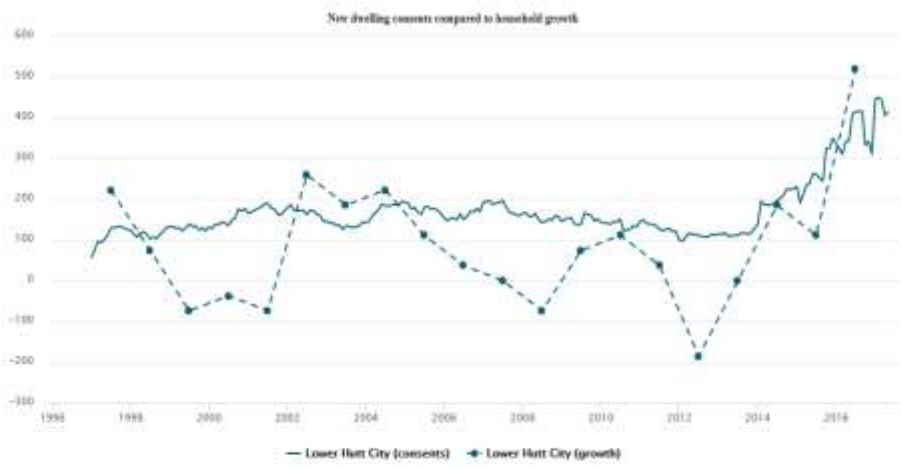


Price to rent ratios show the relative attractiveness of renting versus owning. Higher ratios also indicate that rental yields for investors are lower. This indicator reflects nominal mean rents as reported in new rental bonds lodged with MBIE.

Lower Hutt's price to rent ratio currently stands at 24.7. 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 2015 and April 2017. The ratio for the region in April 2017 was 24.3. 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 27.5; Porirua 24.5; Upper Hutt City 24.4; and Kapiti Coast 23.2 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



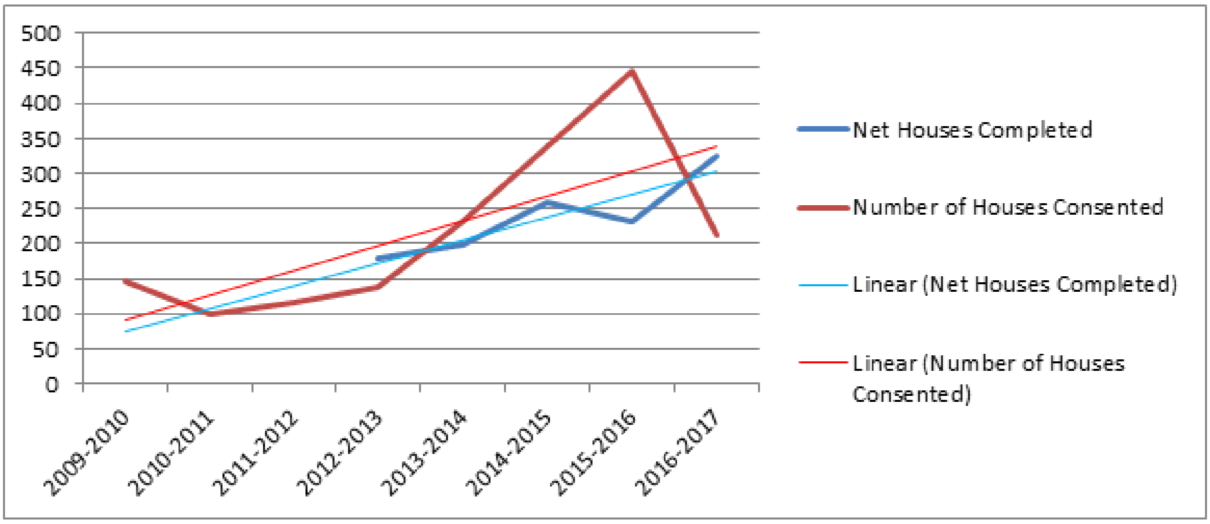
When household growth outstrips new dwelling consents, it may indicate barriers to supplying new homes to meet demand.

A period of falling household growth between 2010 and 2012 has been followed by relatively consistent growth in the period to June 2016. This means that 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 seen in house prices and rents. 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 much 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

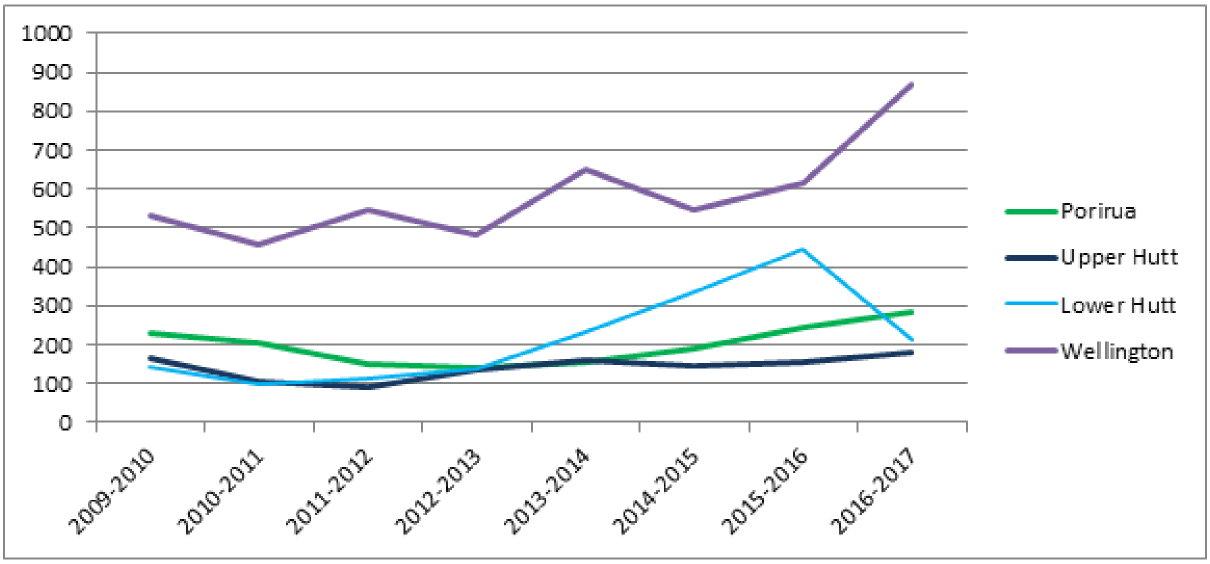
This is an indicator of the supply of new dwellings in the city. Residential dwelling consents increased on an annual basis between 2011 and 2016. Although, there has been a considerable decrease in the number of consents in 2016-2017 compared to 2015-2016, the overall trend remains positive. Council's 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



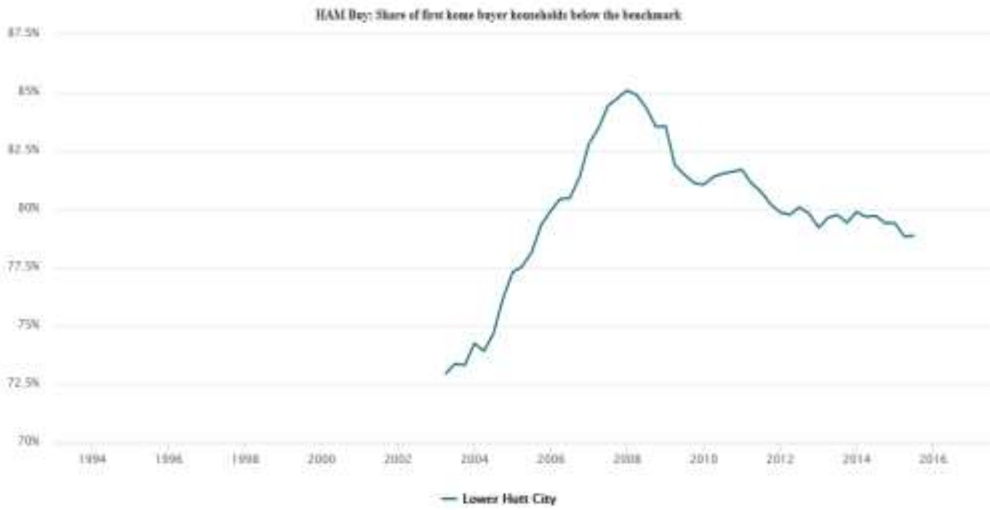
Comparison with Porirua, Upper Hutt, and Wellington City, shows that after a period of strong growth from 2012-2013 to 2015-2016 consents for new dwellings in Hutt City are now lagging behind these areas. We are expecting a number of consents in the current financial year e.g. Rymans (47), Lane Block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

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



Housing affordability trends

Housing Affordability Measure for buyers – Lower Hutt



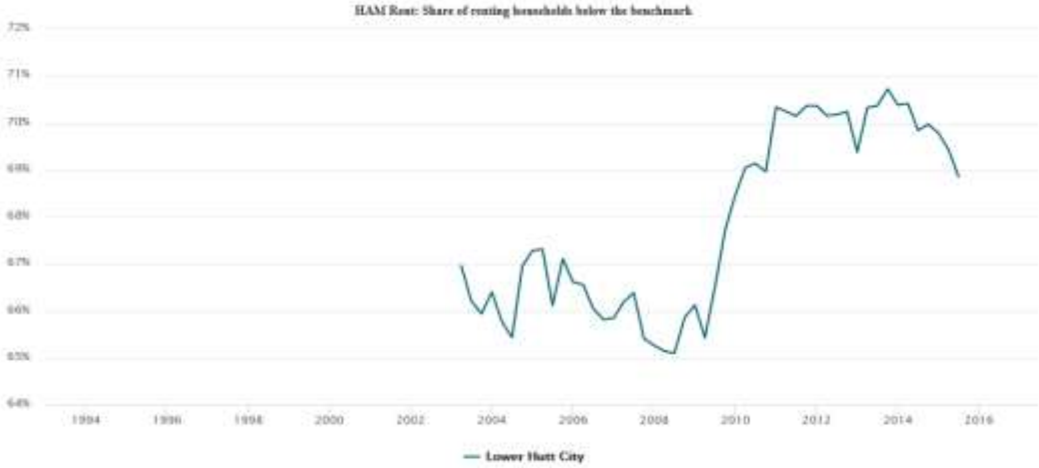
The Housing Affordability Measure (HAM) measures trends in housing affordability for the first home buyer household.[1]

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,

[1] *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.*

and wage increases. The affordability measure does not currently include data after June 2015 and therefore does not cover a period of stronger price growth in the city between 2015 and April 2017.

Housing Affordability Measure for renters – Lower Hutt



A rising trend indicates that affordability for renters is worsening.[2]

Following a period of fluctuation in rent affordability between 2003 and 2009, rental affordability deteriorated markedly between April 2009 and December 2010. The measure remains relatively stable between December 2010 and September 2012 before improving briefly in the final quarter of 2012 and deteriorating again into 2013. Rental affordability has improved between September 2013 and June 2015.

The overall decrease in affordability between June 2009 and June 2015 could be because rent increases outstripped wage increases during this period. Rents increased 6% in the city in 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 4.5%. 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.

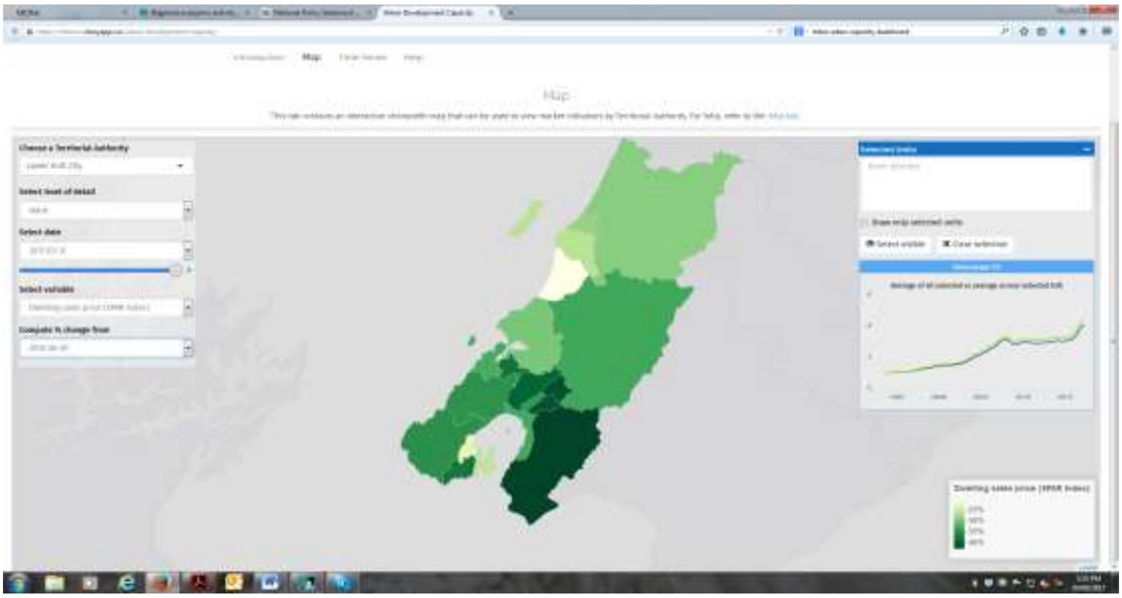
Change in the house price index 2015 to 2017

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 2015 and April 2017 the percentage change in dwelling prices were higher in Lower Hutt wards than in areas of Wellington, Porirua, and Upper Hutt. Prices in Wainuiomata increase by 42%, Northern Ward prices by 41%, Eastern ward prices by 40.6%. This can 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. The areas of Lower Hutt which experienced the most rapid percentage increases in prices had lower

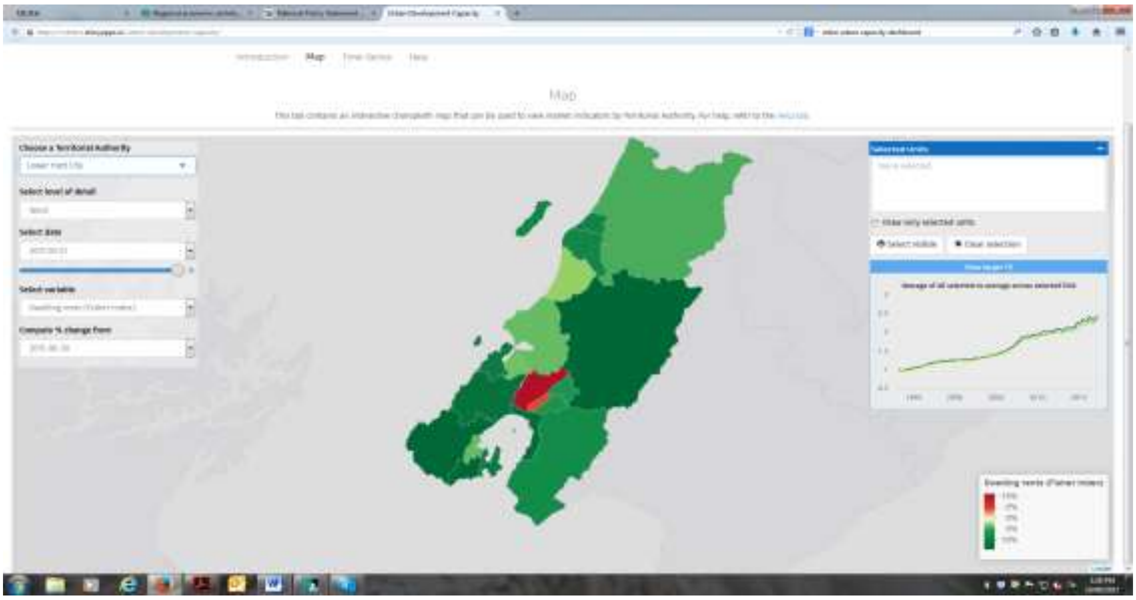
[2] *The indicator has a one-year lag so does not identify recent trends.*

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.



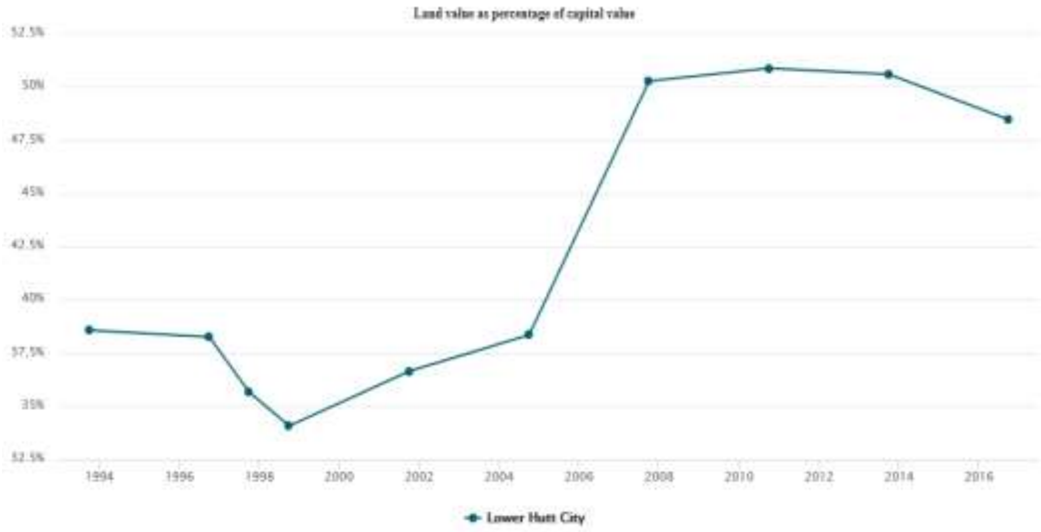
Change in rent price index (Fisher) between 2015 and 2017

The index shows a percentage decrease in rents in Western ward – 11.2% and Central ward – 3.9%. Increase of between 5% and 7% were seen in the Northern, Eastern, and Wainuiomata wards, with an increase of 12.3% in the Harbour Ward. The index increased by 13% in Upper Hutt and areas of Wellington City.



Land

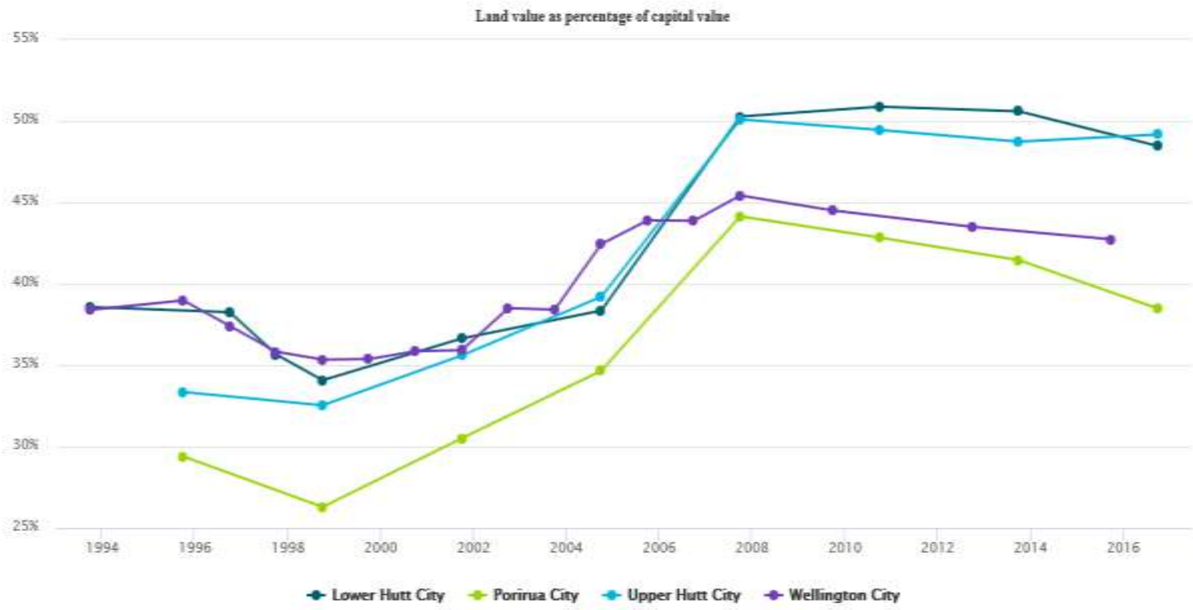
Land value as a percentage of capital value



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 2016 the land value decreased slightly to 48.4% of the capital value.

Cities in the region



Business market

The information in this section deals with CBD office vacancy rates, retail vacancy rates, and industrial vacancy rates.

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.' [3]

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.[4]

'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. Queens Drive, although faring better than High Street, has 13% vacant which equates to five stores. Historically the A grade property of Queensgate Mall has super low vacancies, in 2015 with three stores empty, this equates to a 2% vacancy rate. The C grade strip retail properties of Queens Drive and High Streets with a combined total vacancy of 22% increase the total Lower Hutt vacancy prominently.'

Industrial vacancy rates

Bayleys research showed the following for the two main industrial areas of the city in 2016.

Vacancy rates in Petone fell to 5.3%, from 6.1 in 2015. This change was despite the departure of Unilver from Jackson Street which released around 25,000m2 of industrial space.[5] Petone West is undergoing significant land use change with bulk retail development supplanting the more traditional industrial users. This has included the development of K Mart at 35 Hutt Road.

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[3] Bayleys Research 2016 https://www.bayleys.co.nz/media/c5e5e972-163e-48d3-9f4b-e080b5587309
[4] Bayleys Research 2015 https://www.bayleys.co.nz/media/3dc49d31-26a0-4586-91d7-dc6a92720bf4
[5] Bayleys Research 2017 https://www.bayleys.co.nz/media/e76feb5c-d403-457a-983d-bb1b58e8c306
The new owners of the property, the Prime Property Group, have achieved substantial success in leasing down the premises with companies including, Crown Relocations, Spicers Paper and Paper recycling absorbing all but 5,000m2 of the industrial component on site. This leasing success achieved, provides an excellent illustration of the demand for space within the precinct.'

Vacancies are predominantly located around the periphery of the area. The core industrial area, around Victoria, Fitzherbert, Sydney and Nelson Streets, has a vacancy rate of just 4.7% down from 8.5% in 2015. The core area is therefore in demand, particularly from small manufacturing companies and service providers, and space is quickly leased when it becomes vacant.

Similarly Seaview, the largest of Wellington's industrial precincts, has seen a fall in vacancies between the last two surveys, with the vacancy rate falling to 4.5%. This is the lowest rate since 2008. Occupied space within the precinct has increased by around 23,000m2, reflecting demand for premises in the area.[6]

Construction costs – national

While construction costs in the commercial building sector were higher than in the residential sector pre-2000, this changed after 2003. Although residential construction costs stabilised post 2008 to 2011 the period since has seen strong growth in these costs.[7]

Colliers reported that the costs of residential construction increased by 6% in 2016. This is above the long-term average of cost increases which is at 3.7%. The cost of construction 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.

Higher construction cost inflation may indicate that the industry is reaching capacity. In May 2017 Colliers International reported that more capacity in the industry could lead to costs easing.

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[6] op.cit., Bayleys Research 2017 https://www.bayleys.co.nz/media/e76feb5c-d403-457a-983d-bb1b58e8c306 *'Proactive landlords have also taken steps to secure existing tenants under new leases. At Port Domain, Port Road, for example, owners Seaview HP Limited have 100% occupancy, have secured one its largest tenants under a new eight year lease and had success in lifting rentals at recent rent reviews. The area has not, as yet, seen significant levels of redevelopment being undertaken. With market conditions as tight as they are, occupancy, even within lower grade properties, is high and therefore landlords are not under the same pressure to embark upon development that they may be if they were receiving no rental returns. It is likely therefore that new development within established precincts such as Seaview will be on a design build basis as opposed to speculative development.'*

[7] Colliers International, New Zealand Research Report – The cost of construction (September 2016)