Housing and Business Market Indicators Quarterly Monitoring Report

Quarter ending December 2018*

Report 7: 29 March 2019

*Not all data on the dashboard has been updated.

Contents

Summary

House price growth in the city was slow between the end of September and the end of December 2018, with an increase of 0.1%. Median sale prices increased by 6.5% up between December 2017 and December 2018.

Mean weekly rent costs increase by 2% compared to the previous quarter and by 9.5% between December 2017 and 2018. At ward level, rents increased most strongly in the Harbour, Central, and Northern wards.

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.' [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.

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

Housing Stock

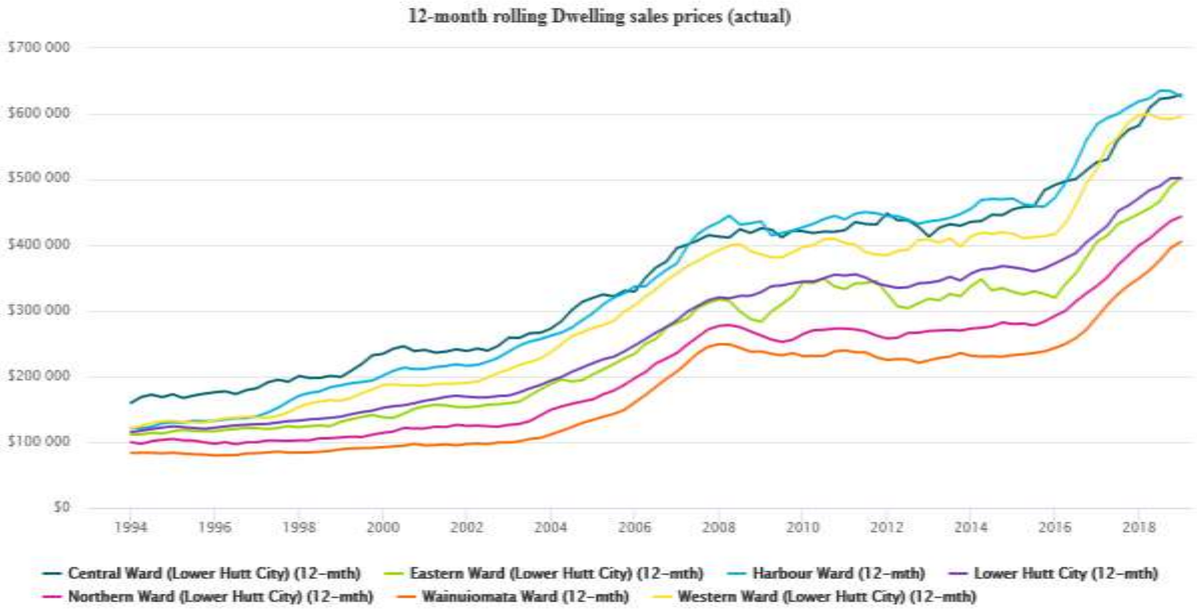
Indicator 1 – Residential stock

At the end of December 2018 the city had a residential stock of 35,846. This is an increase of 203 on the stock in December 2017.

Year	Residential stock
December 1995	29,202
December 2000	31,230
December 2005	33,162
December 2010	34,138
December 2015	35,080
December 2018	35,846

Residential Indicators

Indicator 2 – Dwelling sales prices (actual)

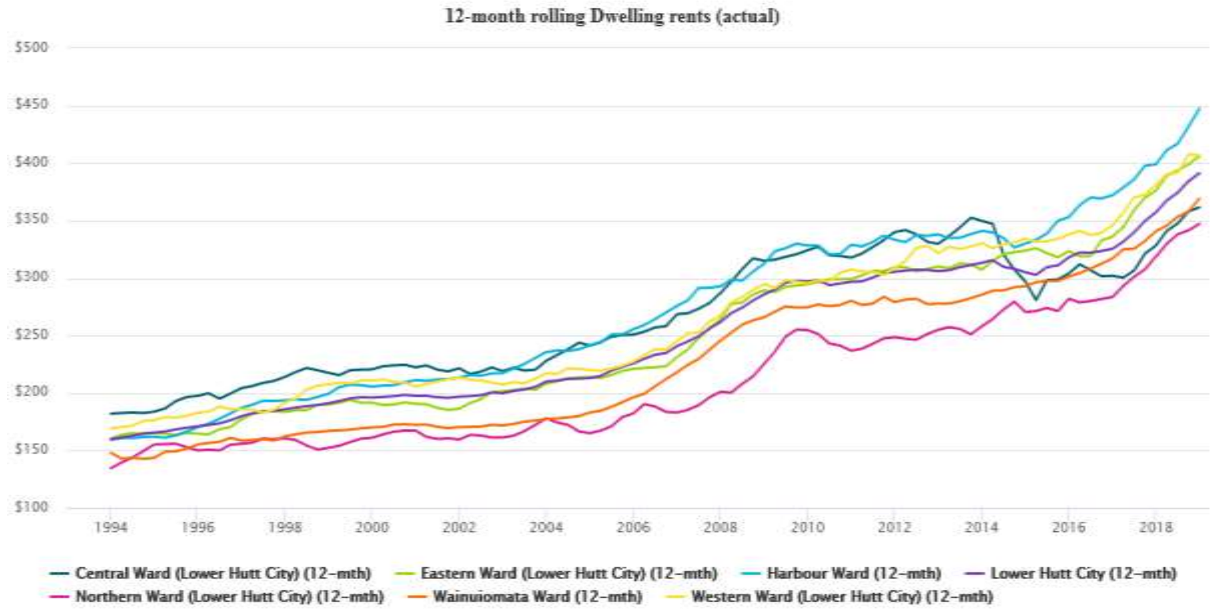


House prices in the city increased by 0.1% between the September quarter and end of December. Median sale prices increased by 6.5% between December 2017 and December 2018.

Annual change at ward level December 2017 – December 2018

Ward	2017	2018	% increase
Central	582,122	629,167	8.1%
Eastern	447,875	502,200	12.1%
Harbour	619,250	626,167	1.1%
Northern	399,688	443,500	11%
Wainuiomata	349,573	405,333	16%
Western	597,715	596,000	-0.2%

Indicator 3 – Dwelling rents (actual)



The mean weekly rent in the city at the end of the December quarter 2018 is $391. This is an increase of 2% compared to the previous quarter and a 9.5% increase between the end of December 2017 and December 2018 – from $357 to $391 per week.

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

Ward	Percentage increase
Western	7%
Harbour	12.2%
Central	10.3%
Northern	9%
Eastern	8%
Wainuiomata	8.2%

QV data for median rents.

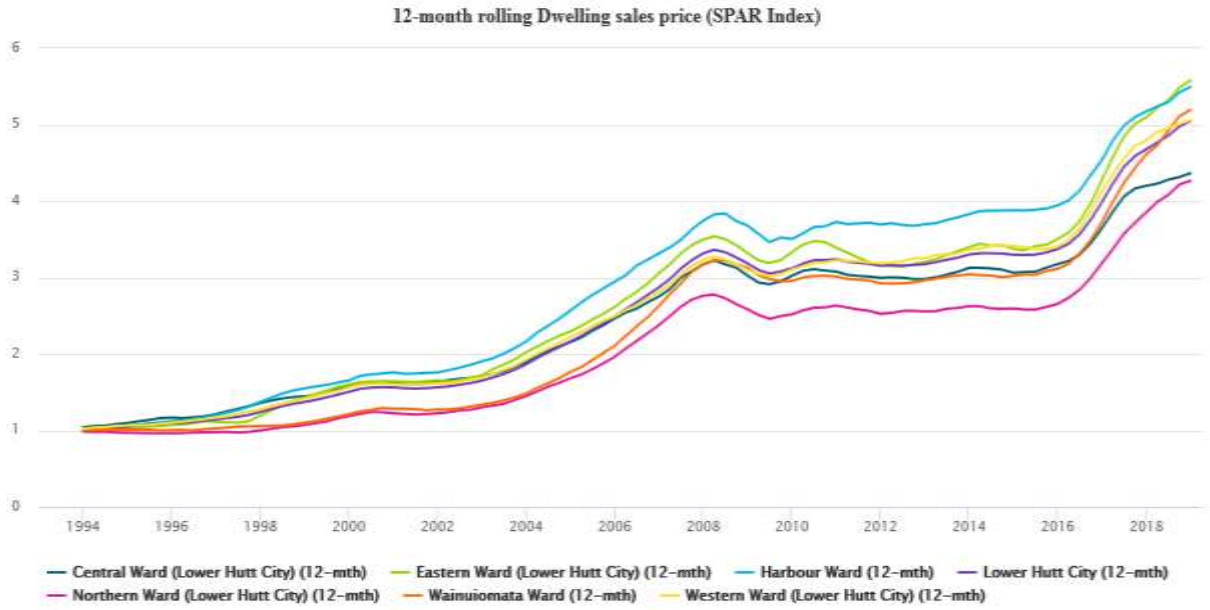
Suburbs	Bonds	Median Rent	Annual Rent Change
Stokes Valley	32	$450	9.80%
Western Hills/Haywards	53	$460	13.60%
Wainuiomata	35	$400	5.30%
Eastern Bays	25	$550	13.40%
Moera/Waiwhetu	25	$410	-8.90%
Petone/Esplanade	52	$450	15.40%
Petone West/Alicetown	30	$415	6.40%
Taita/Naenae	57	$420	8.50%
Hutt Central/Waterloo	64	$490	8.90%
Epuni/Avalon	89	$450	21.60%

Indicator 4 – 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 December 2018 prices in the city are 5.051times higher than in 1993. At the end of the previous quarter prices in the city were 4.976 times higher than in 1993. Prices at ward level have also continued to increase with prices in Harbour ward 5.494 times higher than 1993, Eastern ward 5.581 higher than 1993, Wainuiomata 5.193, and Western 5.061 higher.

Indicator 5 – Ratio of dwelling sales price to rents

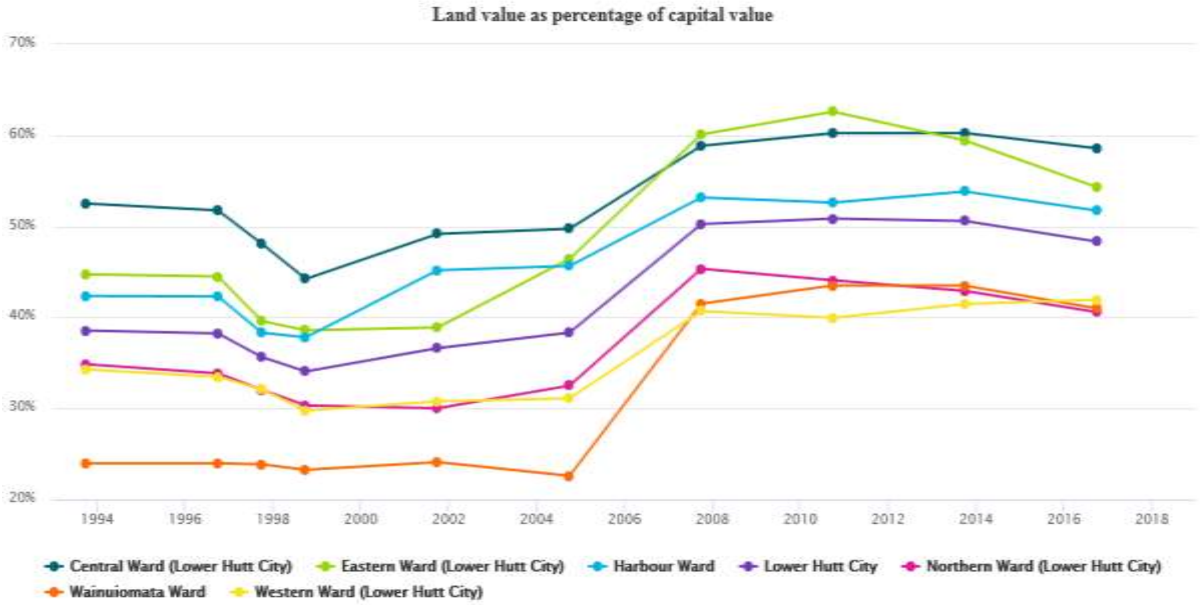


This ratio of house prices to rents is an insight into the relationship between owning and renting and indicates changes in the ease or difficulty of moving from renting to home ownership. A higher house price/rent ratio reflects a larger gap between renting and buying.

The price to rent ratio for Lower Hutt in the December quarter is 24.677. This is down from 25.102 in the previous quarter and the 25.144 at the end of June and means a median priced house is 24.677 times the mean annual rent paid. At ward level:

Ward	Price to rent ratio
Central	33.070
Eastern	23.607
Western	28.014
Harbour	27.101
Wainuiomata	21.658
Northern	24.836

Indicator 6 – Land value as a percentage of capital value (data unchanged from previous quarter)



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 7 – Number of new dwellings consents and code compliance certificates for Lower Hutt

In the October to December quarter there were 94 building consents for new dwellings in the city and 51 code of compliance certificates were issued for new dwellings completed.

Indicator 8 – 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

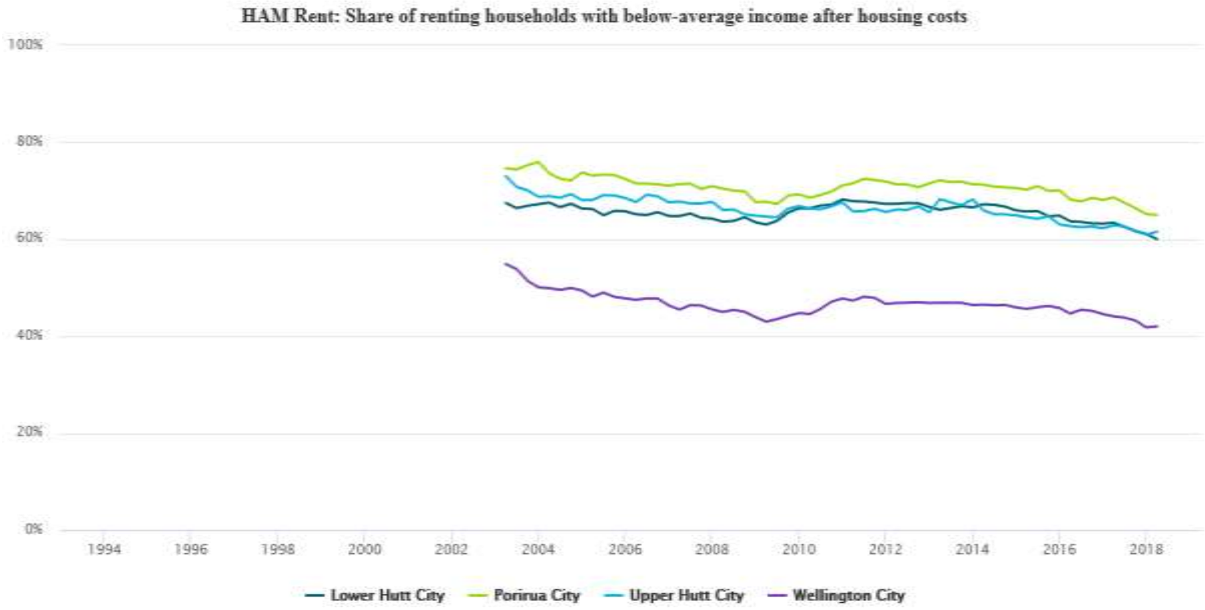
The affordability indicators are from the MBIE dashboard and calculate what a household's residual income would be after housing costs if they were to buy a modest first home in the area in which they live or their income after housing costs for households in rented dwellings. Both indicators currently have data from March 2003 to the end of March 2018.

The percentage of first time home buyers with below average income after housing costs decreased slightly from 79.045% in March 2017 to 78.049% in March 2018. 83.450% of households in Porirua had below average incomes after paying their housing costs while in Wellington and Upper Hutt the percentages were 62.553% and 79.132% respectively.

Indicator 9 – Share of first home buyer households with below-average income after housing costs

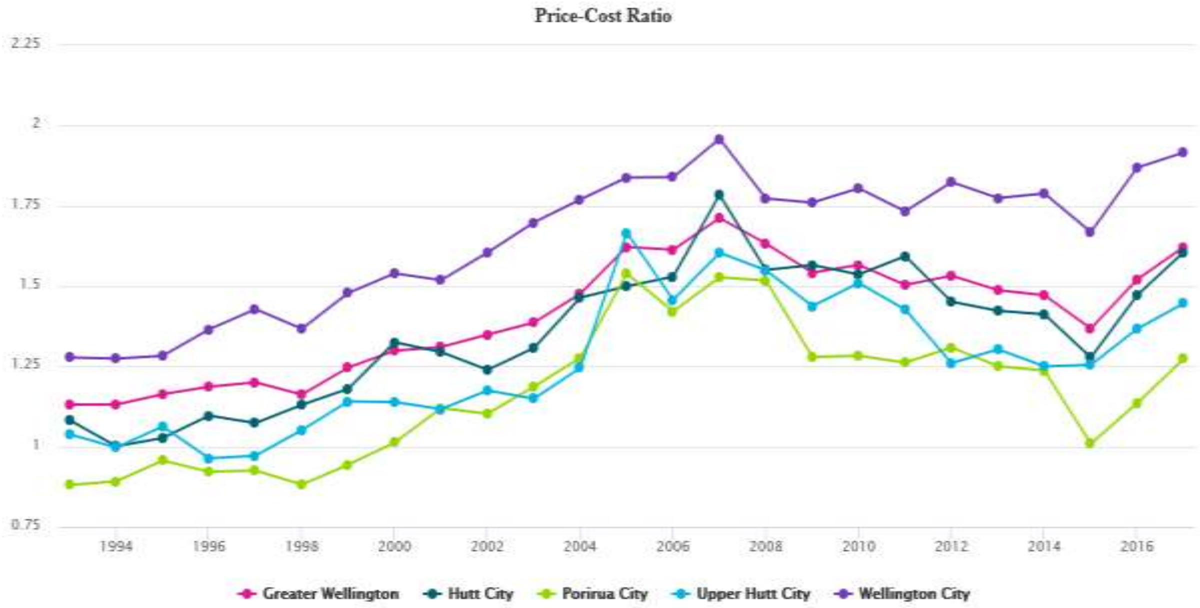
60.038% of households that rented accommodation had below average incomes after paying their housing costs. This has dropped from 63.405% in March 2017. 42.034% of households in Wellington City and 61.547% of those in Upper Hutt had below average incomes after paying their housing costs. 65.027% of households in Porirua had below average incomes after housing costs are considered.

Indicator 10 – Share of renting households with below average income after housing costs



Price Efficiency (data unchanged from previous quarter)

Indicator 11 – 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 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.

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
Lower Hutt Zone	**2016**	**3,249**	**291**	**9%**	**643**	**104,100**	**32**
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