

Dunedin market indicators report

September 2018





Dunedin market indicators report

September 2018

EXECUTIVE SUMMARY

Under the National Policy Statement on Urban Development Capacity (NPS-UDC), councils are required to monitor a range of indicators and use these to understand how well housing and business land markets are functioning, how planning may affect this, and when additional development capacity might be needed.

This is the second monitoring report for Dunedin prepared under the NPS-UDC. The first report, available online, focused on the current situation relative to the last 15-25 years. From this report onwards, the focus will be on changes observed at a monthly or quarterly scale.

Dunedin's house price growth is continuing, although at a slower pace than experienced over the last two years. Nationally, however, Dunedin has stood out as withstanding significant downward trends and had the highest house value growth of all main cities over the three months to July (+1.7%), as well as over the year ending July (+10.2%)¹.

While there are signs that national net migration may have peaked, many analysts believe local house prices are being bolstered by attractive investment returns, interest rates remaining low and a scarcity of houses coming to market^{1,2}.

On the supply-side, there is a relatively high number of homes being consented compared to historic levels. However, there has been little growth over the last two years and consented development is not keeping up with the estimated increase in demand (Figure 3).

The expected influx of workers for the Dunedin Hospital rebuild project is likely to result in new housing initiatives and is expected to raise both supply and demand for housing over the short-medium term future.

Rental costs and yields in the CBD office market are remaining steady, however the value of prime retail space (and to a certain extent secondary retail space) has been increasing (Table 1). Prime industrial space is also increasing in value across the city (Table 3).

BACKGROUND

NPS requirements

The NPS-UDC aims to ensure councils adequately consider the impact of their planning frameworks on the ability and efficiency of the market to provide sufficient housing and business land. Under the NPS-UDC, councils are required to monitor a range of indicators and use these to understand how well housing and business land markets are functioning, how planning may affect this, and when additional development capacity might be needed.

The NPS-UDC came into force in November 2016 and Dunedin was re-categorised as a medium-growth urban area in September 2017. This triggered additional requirements to monitor market indicators and undertake a housing and business development capacity assessment by 31 December 2018.

Dunedin context

Historically, Dunedin's population growth has been modest, with an average annual growth rate of 0.3% over the last 20 years³. Since 2013, high levels of net migration have increased this rate to between 0.9% and 1.4% per year. Dunedin is also experiencing an aging population⁴, which is expected to impact on housing and business markets.

Methodology

The indicators used in this report are largely based on data provided or recommended by the Ministry of Business, Innovation and Employment (MBIE). This has been supplemented with data from buildings consents to provide a greater understanding of the type, location, and scale of

construction activity within Dunedin. Information on the business market, such as commercial rents and vacancy rates, has been collated from a variety of sources.

Due to the complexity of land and property markets, these indicators are best read collectively to get an understanding of how the range of factors interact.

Some additional indicators are available with less frequently updated data. Commentary on these indicators is available in the first monitoring report (May 2018) and will be included in subsequent monitoring reports as the datasets are updated.

RESIDENTIAL MARKETS

Dwelling sale price and rent trends

While there has been a downturn in the rate of growth over the last two quarters, house prices are still rising. Dunedin has had the highest quarterly and annual value growth rates of all New Zealand cities¹.

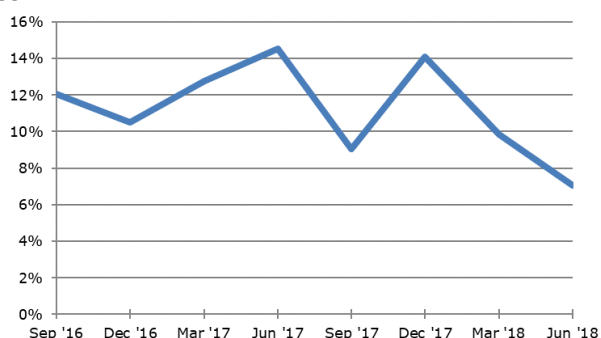


Figure 1: Changes in median home sale price (year to date)⁵

Rental costs increased 9% over the year to June. This was a higher rate of growth than sale prices over that period, bucking the trend of the last three years.

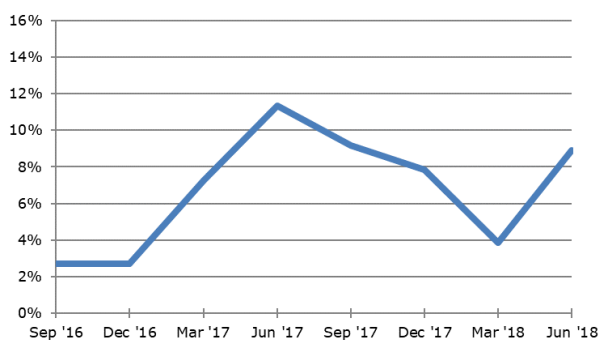


Figure 2: Changes in median rental costs (year to date)⁵

New construction⁶

The number of new consented homes has been relatively steady. Over the year to July 2018, 429 new homes were consented and 375 have been built. While this is an increase in homes constructed compared to the prior twelve months (324), the number of consented homes has decreased slightly. As house values are significantly increasing and population growth remains high, the lack of a corresponding increase in residential developments suggests that there may be constraints in the development market.

Of the homes consented between August 2017 and July 2018, 19% were for multi-unit dwellings (such as townhouses, apartments, and other attached units). This is a slight increase from 17% over the prior twelve months, but is still less than the one third of new housing stock that has been assessed as being required for Dunedin's housing stock to accommodate future housing needs⁷.

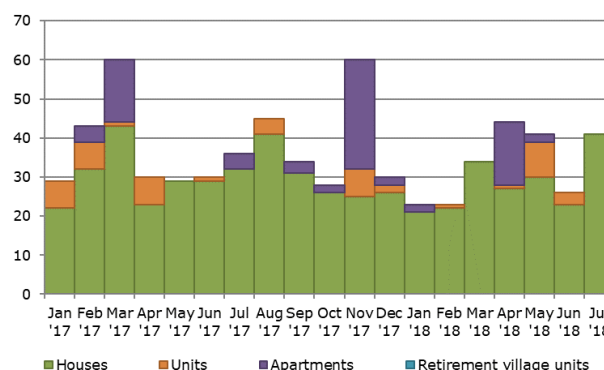


Figure 3: Newly consented dwellings by month

Market operation¹

The last 18 months have generally had a relatively high number of first home buyers and a steady decrease in mortgaged multiple property owners. This was consistent with trends in other New Zealand cities.

However, in Dunedin this has been reversed over the first half of 2018, with a significant increase in mortgaged investors and a decline in first home buyers. The lower values in Dunedin compared to elsewhere in New Zealand and high rental yields may be contributing to the attractiveness of Dunedin housing to investors.

The upsurge of purchases from mortgaged investors (together with a fall in first home buyers) is contrary to suggestions⁸ that a significant amount of rental housing is being sold to first home buyers. It also suggests that there may have been little impact from recent government policy changes, such as the Healthy Homes Bill, bright-line test extension and removal of negative gearing.

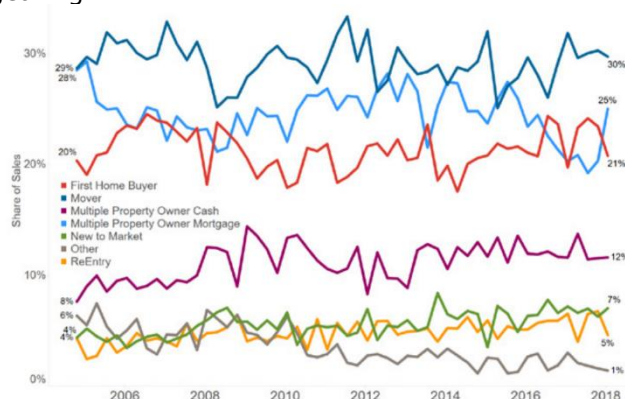


Figure 4: CoreLogic buyer classification

BUSINESS MARKETS

The second quarter of 2018 saw significant growth in overall consented commercial floorspace, primarily driven by industrial developments⁶.

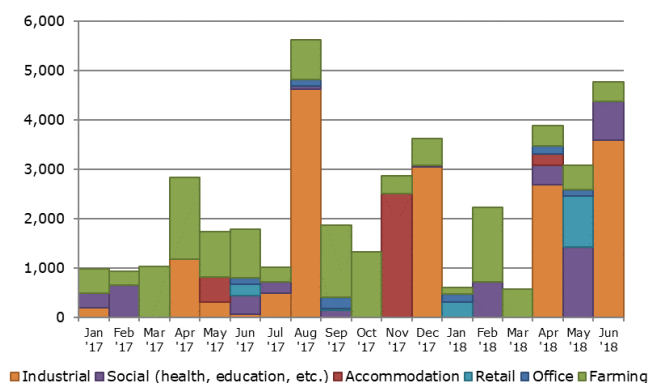


Figure 5: Consented new floor area⁶

Data from Colliers suggests that retail vacancy rates in prime areas are remaining low due to high demand from potential tenants².

A separate quarterly analysis of retail vacancies along George Street shows that the vacancy rate has been relatively steady, between 8-12% since August 2014⁹. As at August 2018, there were 14 vacant retail units on George Street between Moray Place and Frederick Street, which equates to an 11% vacancy rate.

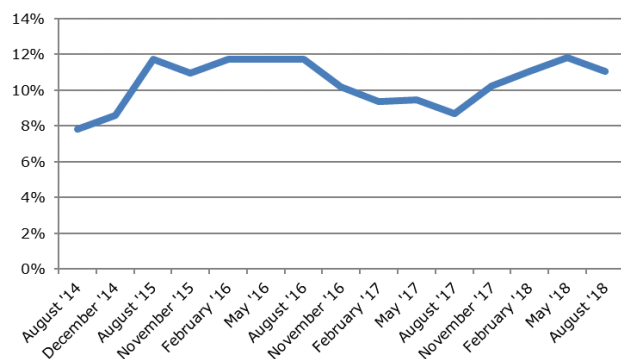


Figure 6: Retail unit vacancy rates in central George Street⁹

Despite the high demand for retail space, net rental costs have remained relatively flat. However, the capital value of retail properties has generally increased, particularly for prime space.

Table 1: CBD retail market: June 2018²
(2017 values in italics)

Grade	Net rents (\$/m ² pa)	Capital value (\$/m ²)	Market yields (%)
Prime	\$500 - 1,200 (<i>\$500 - 1,150</i>)	\$6,250 - 21,820 (<i>\$5,880 - 20,000</i>)	5.5 - 8% (<i>5.75 - 8.5%</i>)
Secondary	\$150 - 450 (<i>\$150 - 450</i>)	\$1,365 - 5,625 (<i>\$1,365 - 5,295</i>)	8 - 11% (<i>8.5 - 11%</i>)

Strong business confidence has resulted in high demand for office space and vacancy rates are consequently low. The trend of converting and upgrading older buildings for office use is continuing. There is little change in the key indicators monitored².

Table 2: CBD office market: June 2018²
(2017 values in italics)

Grade	Net rents (\$/m ² pa)	Capital value (\$/m ²)	Market yields (%)
Prime	\$190 - 225 (<i>\$190 - 235</i>)	\$2,235 - 3,240 (<i>\$2,235 - 3,240</i>)	7.25 - 8.25% (<i>7.25 - 8.5%</i>)
Secondary	\$75 - 190 (<i>\$75 - 190</i>)	\$625 - 2,235 (<i>\$625 - 2,235</i>)	8.75 - 11.0% (<i>8.55 - 12%</i>)

Demand is continuing to outweigh supply in the industrial property market, with little prime stock available for either lease or purchase and a perceived lack of available freehold development land across the market². This may be causing constraints for tenants wanting to relocate or enter the market.

Table 3: Dunedin industrial market: June 2018²
(2017 values in italics)

Area	Grade	Net office rents (\$/m ² pa)	Net warehouse rents (\$/m ² pa)
Inner City	Prime	\$130 - 230 (<i>\$130 - 220</i>)	\$70 - 135 (<i>\$75 - 125</i>)
	Secondary	\$85 - 135 (<i>\$70 - 100</i>)	\$45 - 85 (<i>\$45 - 75</i>)
Kaikorai Valley	Prime	\$100 - 200 (<i>\$100 - 180</i>)	\$60 - 100 (<i>\$60 - 95</i>)
	Secondary	\$65 - 110 (<i>\$60 - 100</i>)	\$40 - 65 (<i>\$40 - 60</i>)
Mosgiel	Prime	\$90 - 170 (<i>\$90 - 150</i>)	\$60 - 90 (<i>\$55 - 90</i>)
	Secondary	\$55 - 100 (<i>\$60 - 90</i>)	\$40 - 55 (<i>\$40 - 55</i>)

NEXT STEPS

This monitoring report will be updated on a quarterly basis, with a more comprehensive version published annually in June/July. A housing and business assessment is also currently being undertaken. This includes an assessment of demand over the next 3, 10, and 30 years for housing and business land by type, location, and price point. It will also assess the capacity available to meet this demand, including the effect of Second Generation Plan provisions and the economic feasibility of developments. This assessment is due to be completed by 31 December 2018.

SOURCES

- CoreLogic Quarterly Property Market & Economic Update New Zealand – Quarter 2, 2018
- Colliers International Otago 2018-19 Market Report
- Subnational population estimates, Statistics New Zealand
- Census 2013, Statistics New Zealand
- Urban Development Capacity Dashboard, Ministry of Business, Innovation & Employment

⁶ Building consents issued, Statistics New Zealand

⁷ Housing Choice in Dunedin: District Plan Monitoring Series Research Report 2007/1, Dunedin City Council

⁸ <https://www.odt.co.nz/news/dunedin/property-investors-pull-out>

⁹ © Copyright Adam Binns Commercial Limited, E&OE. The data provided is entirely for information purposes only and shall not be relied on.