Dunedin market indicators report

November 2019

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DUNEDIN CITY COUNCIL
Kaunihera-a-rohe o Ōtepoti

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.

An annual report will focus on long-term trends and include a wide range of indicators, while quarterly reports (including this one) provide short-term updates.

Dunedin's house price growth is continuing, with an average increase of 12.1% for the year to June 2019, compared to a 1.4% national growth rate. Over the June 2019 quarter, the average house price grew by 1.6%, compared to a slight decline in the national average[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[2,3].

On the supply-side, the number of homes being consented has remained steady and is still significantly below the estimated increase in demand (Figure 3).

The potential for new construction workers to be brought into Dunedin for impending major construction projects, including the Dunedin Hospital rebuild, may result in new housing initiatives and is expected to raise demand for housing over the short-medium term.

Commercial markets are performing strongly, leading to high levels of demand, particularly for industrial and office premises[2].

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.

Dunedin context

Historically, Dunedin's population growth has been modest, with an average annual growth rate of 0.4% over the last 20 years[4]. Since 2013, high levels of net migration have increased this rate to between 0.9% and 1.5% per year. This is matched by strong economic growth, with employment numbers increasing by at least 2% per year over the last three years[5].

Methodology

The indicators used in this report are largely based on data provided or recommended by the Ministry of Business, Innovation and Employment. This has been supplemented with data from building 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.

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

House value and rental trends

House price growth remains high, with prices in June 2019 up 12.1% compared to a year earlier. This contrasts with declining national trends, with the nationwide annual growth rate decreasing to 1.4%.

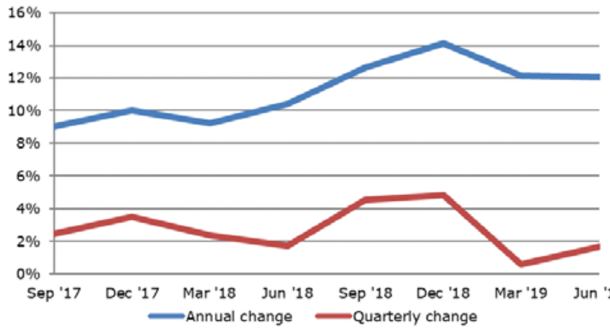

Figure 1: Change in average house value[1]

Growth in rental costs also remains high, with costs in June 2019 up 5.8% compared to a year earlier, despite the usual mid-year drop (caused by seasonal fluctuations in the types of rental properties being let).

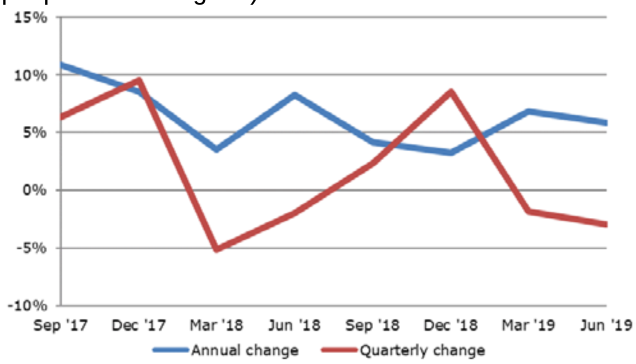

Figure 2: Changes in median rental costs[6]

New construction[7]

The number of consented new homes has been relatively steady. Over the year to August 2019, 445 new homes were consented and 396 were constructed. As house price and population growth both remain high, the lack of a corresponding increase in residential developments suggests that there may be constraints in the development market.

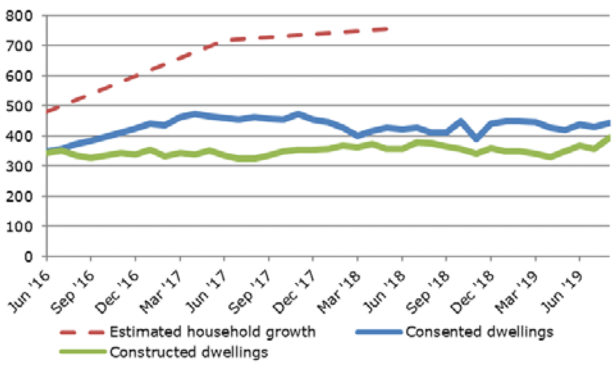

Figure 3: Housing developments compared to household growth (year to date) [6,7,8]

Of the homes consented over the year to August 2019, 20% were multi-unit dwellings (such as townhouses, apartments, and other attached units). Previous research on demographic trends and housing preferences in Dunedin has suggested that one third of new housing stock should be attached dwellings to accommodate future housing needs[9].

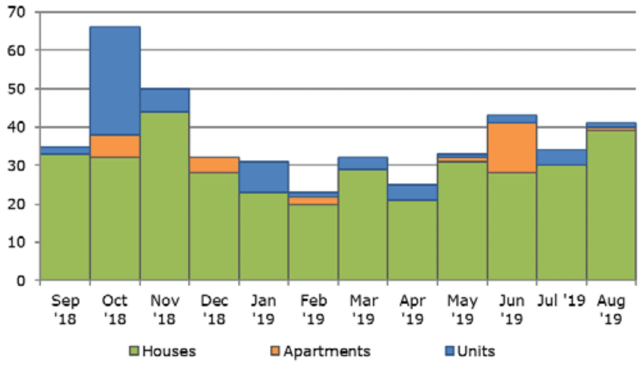

Figure 4: Newly consented dwellings by month

Market operation[10]

The proportion of sales to multiple property owners has continued to increase. Lower house values in Dunedin compared to elsewhere in New Zealand and high rental yields are likely to be contributing to the attractiveness of Dunedin housing to investors[2,3].

The number of people buying their first rental property has particularly increased and now comprises 13% of purchases.

The high proportion of purchases from multiple home owners also suggests that the additional costs and regulations recently implemented have not deterred most investors. These include the Healthy Homes Guarantee Act standards (compliance required by 2021-24) and removal of negative gearing from the 2019/20 financial year[11].

After a temporary increase to historically high levels, the proportion of sales to first home buyers has dropped back to 22%.

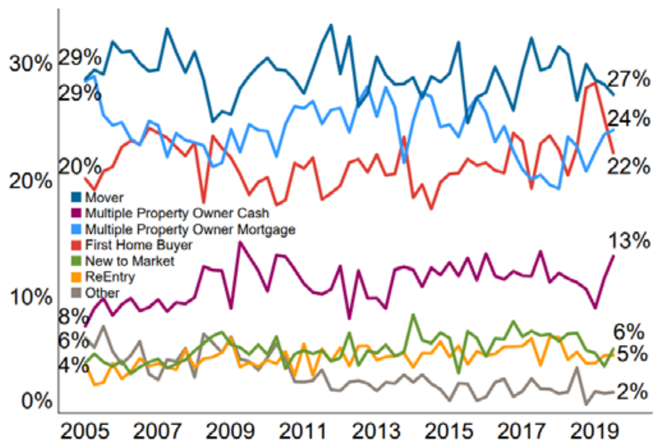

Figure 5: CoreLogic buyer classification

BUSINESS MARKETS

Much of the new commercial floorspace that has been consented in recent months has been for farming and industrial purposes, as well as a significant hotel development in Filleul Street in August[7].

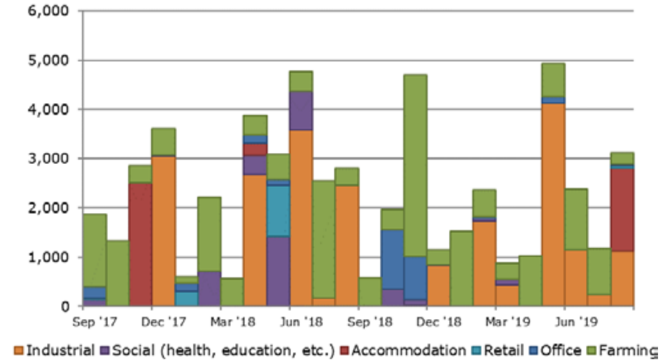

Figure 6: Consented new floor area[7]

Data from Colliers suggests that the vacancy rate for prime retail space has remained low due to high demand from potential tenants[2]. A separate quarterly analysis of retail vacancies along George Street (between Moray Place and Frederick Street) also shows that the vacancy rate has been relatively steady, between 8-12% of units since August 2014[12]. As at August 2019, the vacancy rate has remained relatively steady at approximately 9.4%.

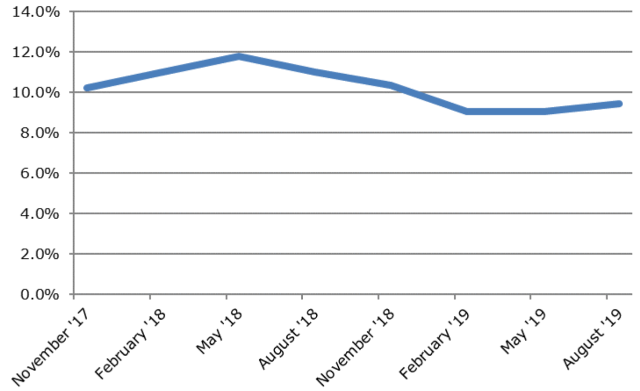

Figure 7: Retail unit vacancy rates in central George Street[12]

Retail rental costs are largely unchanged from 2018, however the increase in property values has resulted in a reduction in market yields.

Table 1: CBD retail market: June 2019[2] (2018 values in italics)

Grade	Net rents ($/m^2 pa)	Market yields (%)
Prime	$500 - 1,200 *($500 - 1,200)*	5.5 - 7.25% *(5.5 - 8%)*
Secondary	$150 - 450 *($150 - 450)*	7.25 - 9% *(8 - 11%)*

Strong business confidence is continuing to result in high demand for office space and vacancy rates are consequently low. While there is demand for more office space, high construction costs are still acting as a deterrent to the development of new office buildings[2].

Table 2: CBD office market: June 2019[2] (2018 values in italics)

Grade	Net rents ($/m^2 pa)	Market yields (%)
Prime	$190 - 240 *($190 - 225)*	7 - 8% *(7.25 - 8.25%)*
Secondary	$80 - 200 *($75 - 190)*	7.75 - 10% *(8.75 - 11%)*

Demand is continuing to outweigh supply in the industrial property market, with little prime stock available for either lease or purchase and a lack of available freehold development land across the market[2]. This may be causing constraints for tenants wanting to relocate or enter the market.

Table 3: Dunedin industrial market: June 2019[2] (2018 values in italics)

Grade	Net office rents ($/m^2 pa)	Net warehouse rents ($/m^2 pa)	Market yields (%)
Prime	$140 - 240 *($130 - 230)*	$90 - 140 *($70 - 135)*	6.25 - 7.25% *(6.75 - 8%)*
Secondary	$110 - 220 *($85 - 135)*	$65 - 115 *($45 - 85)*	7.25 - 9% *(8 - 10%)*

NEXT STEPS

This monitoring report is updated on a quarterly basis, with a more comprehensive version published annually. A housing capacity assessment and business capacity assessment were completed earlier in 2019. An update to the housing capacity assessment is currently being undertaken and will be released in early 2020. These assessments include an analysis of demand over the next 3, 10, and 30 years for housing and business land. They also outline the capacity available to meet this demand, including the effects of Second Generation Plan provisions and the economic feasibility of developments. Results from these assessments will be summarised in the next annual monitoring report.

REFERENCES

[1] Dunedin City Quarterly Economic Monitor – June 2019, Infometrics

[2] Colliers International Otago 2019-20 Market Report

[3] Property values in New Zealand continued to grow at a modest pace for the 13th month in a row, QV.co.nz

[4] Subnational population estimates, Statistics New Zealand

[5] New Zealand business demography statistics: At February 2019, Statistics New Zealand

[6] Urban Development Capacity Dashboard, Ministry of Business, Innovation & Employment

[7] Building consents issued, Statistics New Zealand

[8] Building consent database, Dunedin City Council

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

[10] CoreLogic NZ Quarterly Property Market & Economic Update Report - Q4, 2018

[11] Investors continue to defy the extra rules and costs, CoreLogic (15 February 2019)