

Dunedin market indicators report

May 2018





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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 first monitoring report for Dunedin prepared under the NPS-UDC. It will be updated on a quarterly basis and will evolve as new information becomes available.

The monitoring report shows that Dunedin is currently experiencing significant growth in both house prices and population. This is likely to be driven by significant economic growth and high migration in recent years. These factors are consistent with national trends, however are less pronounced than in other New Zealand cities. Despite rising house prices, indicators of housing affordability suggest that overall affordability for both homeowners and renters is either slightly improving or remaining flat. This is due to house price increases being offset by other housing costs (e.g. interest rates) decreasing and household incomes rising.

Building consent data shows that the construction of new homes has historically kept up with growth in household numbers, although has fallen behind in recent years. It also shows a mismatch between the homes being built and Dunedin's changing housing preferences and demographics. Dunedin's growth is expected to almost entirely consist of single person households and couples without children, both of which are more likely to prefer to live in attached housing than demographic groups¹. However, the average floor area of new homes is remaining steady at around 200m² and only a small number of consented homes are for attached housing typologies. Further analysis is required to assess the causes behind this divergence.

Indicators of capacity constraints in the housing market suggest that the amount of zoned land is not a significant issue. In particular, land value as a

proportion of total capital value is relatively flat and the price of houses is very closely tied to the cost of construction.

There is less data available for assessing how the business land market is functioning. However, there are indications of strong business confidence resulting in increases in demand, particularly for higher grade space.

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, however Dunedin has only recently been re-categorised as a medium-growth urban area. This triggers additional requirements to monitor market indicators and undertake a housing and business development capacity assessment by 31 December 2018.

This is the first monitoring report for Dunedin prepared under the NPS-UDC. It will be updated on a quarterly basis and will evolve as new information becomes available.

¹ *Housing Choice in Dunedin, Dunedin City Council (2007); Subnational Family and Household Projections: 2013(base)–2038, Statistics New Zealand (2017)*

Dunedin context

Historically, Dunedin's population growth has been modest, with an average annual growth rate of 0.3% over the last 20 years. 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 population and decreasing household sizes, which are both 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 also been collated from a variety of sources to take advantage of the scarce data that currently exists.

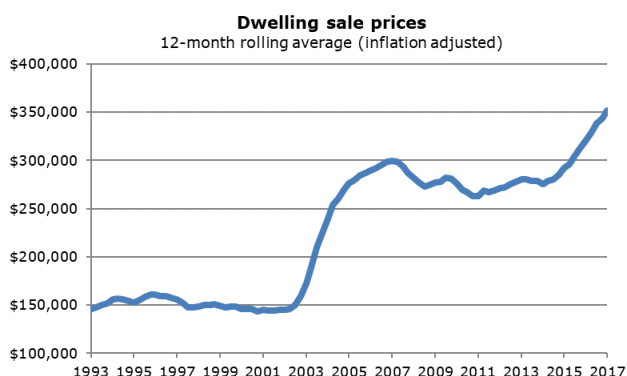
The indicators have been chosen based on their ability to inform DCC decision-making and reveal trends over a range of timeframes. Due to the complexity of land and property markets, they are best read collectively to get an understanding of how the range of factors interact.

RESIDENTIAL MARKETS

Dwelling sale price and rent trends

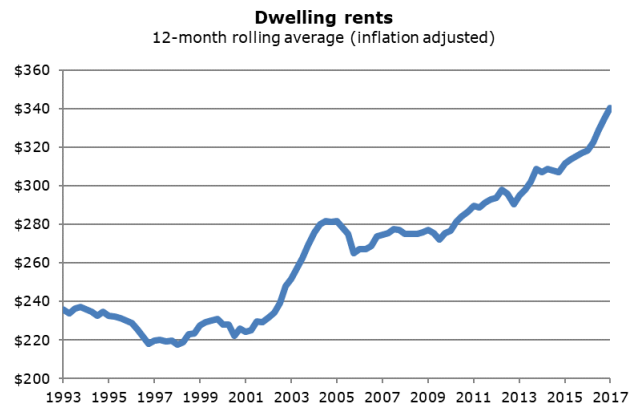
Median dwelling sale prices rose drastically between 2003 and 2007. The global financial crisis had a significant impact from 2008, resulting in prices dropping and remaining flat until 2015. Since then, prices have been rising significantly.

These trends are consistent with most major centres in New Zealand. An analysis of Dunedin house sale prices shows close correlations with growth in household numbers (with about a two year lag), construction costs, and local GDP.



Rental costs have followed a similar trend to sale prices, however the scale of the changes has been less significant.

While median dwelling sale prices rose 28% over 2015-2017, rental costs only rose 11% over the same period (both figures inflation adjusted).

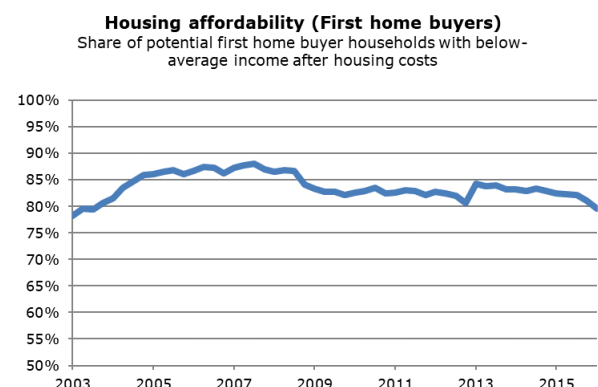


Housing affordability trends

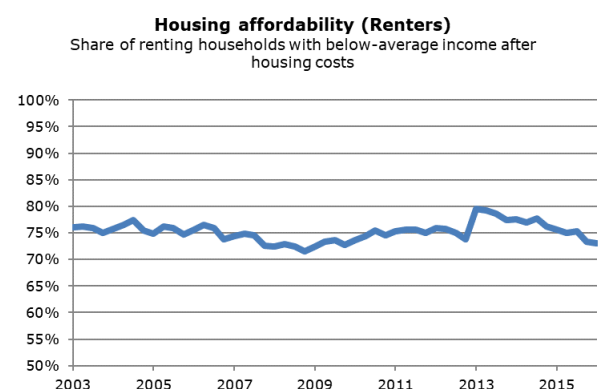
The housing affordability measure for first home buyers is a new indicator developed by the Ministry of Business, Innovation and Employment (MBIE) as a future Tier 1 government statistic. It is based on household income remaining after total housing costs, and compares potential first home buyers in a local area to all households within New Zealand.

Results for Dunedin show that affordability for potential first home buyers has been improving over 2005-2016.

Since the average cost of dwellings has increased significantly over this time, a decreasing housing affordability measure means that this must have been offset by other housing costs (e.g. interest rates) decreasing and/or household incomes rising.



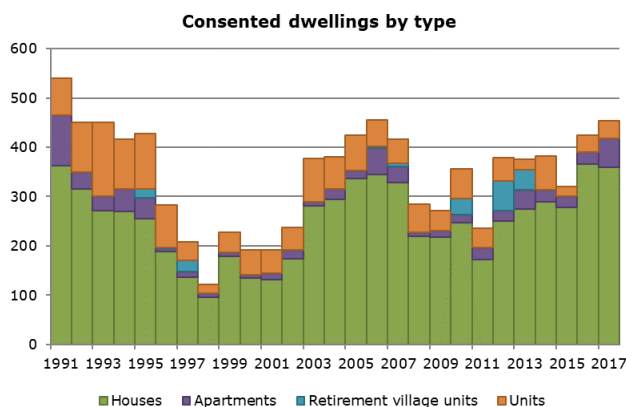
The housing affordability measure for renting households is based on household incomes and total rental costs. This shows that rental housing affordability has been relatively flat over 2003-2016. Although average rental costs have increased significantly over this time, this has been offset by increases in household incomes.



New construction

The number of consented dwellings has been generally increasing since the global financial crisis in 2008 and remains dominated by standalone houses. Units (such as townhouses or family flats) have been generally declining since 2003, however apartments have been slowly picking up over the same period.

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. Over the past three years, only 16% of consented dwellings have been multi-unit typologies. This suggests that there may be supply-side constraints to developing these homes. The residential capacity assessment currently underway may provide information about these constraints.



Mosgiel and Taieri continue to accommodate a significant amount of Dunedin's growth. One quarter of Dunedin homes built in the last five years have been on the Taieri (up from just 6% in 2003), with another 16% in Mosgiel. Approximately a third of new homes were in suburbs relatively close to the CBD.



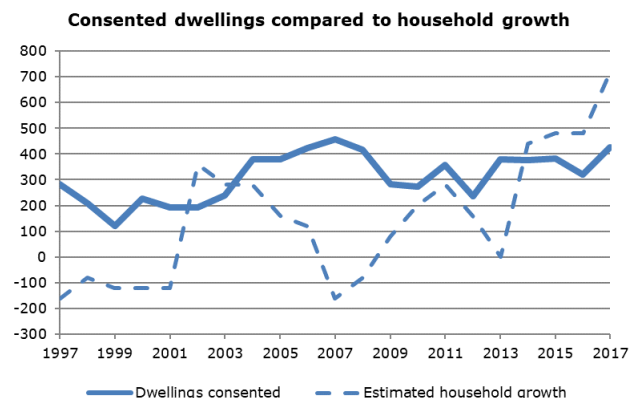
Distribution of newly constructed homes in Dunedin City 2013-2017

Dunedin has historically consented more housing than has been required to accommodate household growth. Between 1997 and 2017, dwellings with an estimated capacity for 6,500 households were

consented² whereas the estimated household growth was only 3,200 over that time period.

This historic trend may have resulted in a surplus of housing stock and suggests that there have not been major constraints to meeting growth requirements. However, the recent rates of population growth have reversed this trend and overtaken consenting. This has the potential to increase house prices and overcrowding if it continues and is not accompanied by a corresponding increase in development.

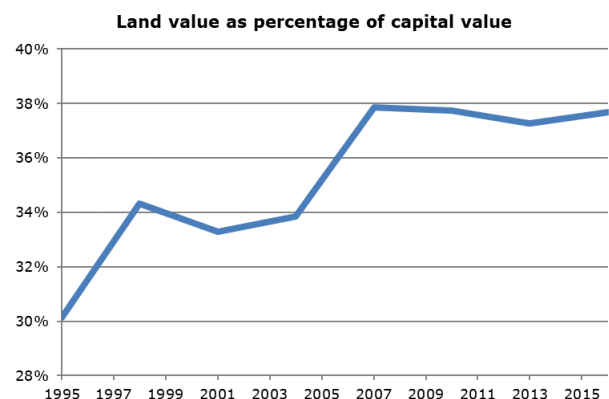
This analysis does not include the impacts of demolitions or household and visitor trends, which would likely increase housing demand.



Market operation

Land value rose significantly faster than the total capital value of properties between 1996 and 2007, but has remained flat since. The proportion of capital value taken up by land value is lower in Dunedin than any other medium or high growth area in New Zealand.

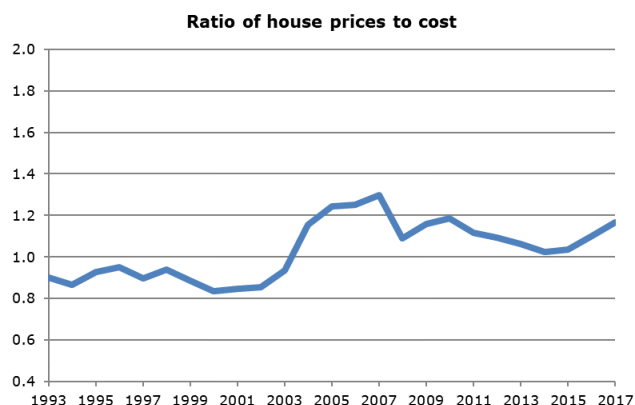
The low and steady land value ratio suggests that either the availability of adequate land is less of a constraint than elsewhere, or the value of constructed improvements (e.g. buildings) is higher.



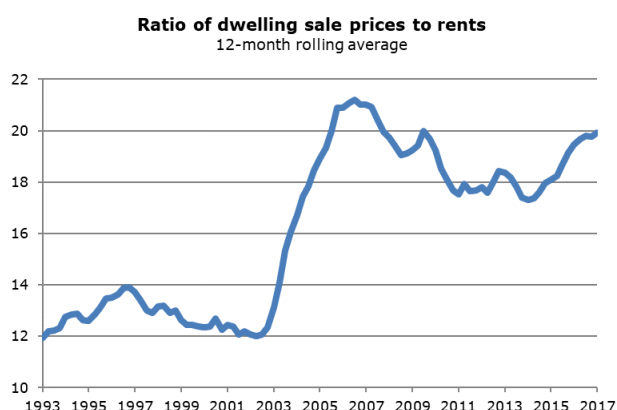
Since 2003, Dunedin has had a house price to cost ratio of between 1 and 1.3. The current price-cost ratio of 1.17 means that the average house is worth 17% more than its associated construction cost.

² Analysis on historic Dunedin City building consent data suggests that approximately 90% of consented dwellings are subsequently constructed.

The price-cost ratio of 1.17 also suggests that the infrastructure serviced section comprises less than 15% of the price of a home, and that the land market is operating efficiently. Guidance from MBIE states that ratios between 1 and 1.5 indicate that “the supply of land and development opportunities are relatively responsive to demand”.



As discussed above, periods of significant rises in house prices, such as 2003-2007, tend not to be matched with equivalent rental price increases. These periods consequently result in significant decreases in the relative affordability of buying a home compared to renting. This has been the trend since 2015.



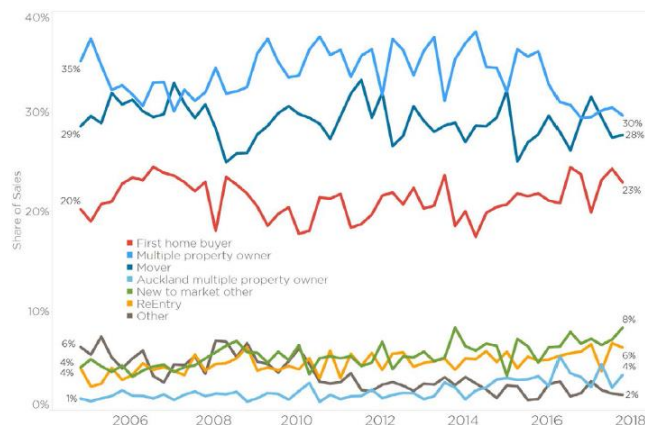
The composition of buyers in the Dunedin market has been relatively consistent since 2005.

First home buyers, people owning multiple properties (such as investors) and movers all make up a significant portion of purchasers.

In recent years, the proportion of sales to multiple property owners has been declining. This coincides with the introduction of the ‘bright-line’ test³ for taxability; however it is not known whether this is the cause. If it is, the imminent extension of the ‘bright-line’ test (along with new requirements on heating and insulation of rental properties) may further reduce the presence of investors in the property market.

³ The bright-line test requires income tax to be paid on the sale of residential properties that have been owned for less than two years and which are not the owner’s main home.

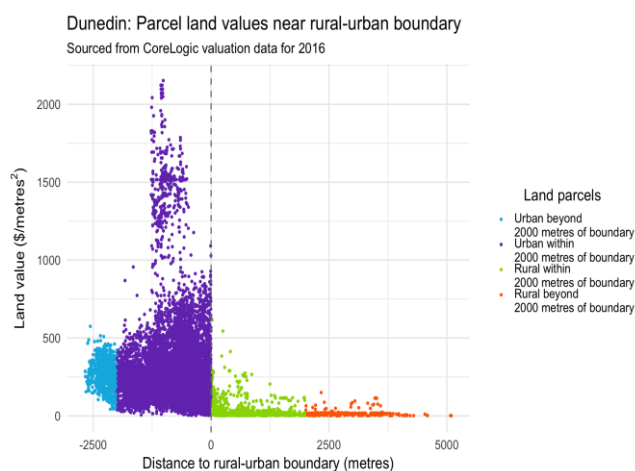
CoreLogic buyer classification



Source: CoreLogic Monthly Property Market & Economic Update New Zealand February 2018

Urban zoned land is worth significantly more than surrounding rurally zoned land. However, most of this difference is due to factors unrelated to zoning, including costs of subdivision, development contributions, amenities, and geographic features.

After factoring in these elements, the data suggests that zoning of land may result in a \$22,500 (or 29%) difference in the property values of otherwise similar 600m² sections at the urban/rural boundary. This is the second lowest differential of all medium and high growth urban areas in New Zealand and suggests that the amount of zoned land is not a significant barrier to growth.



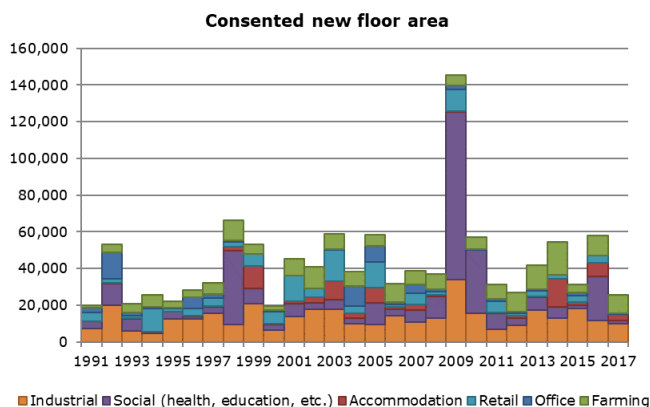
Business markets⁴

Industrial buildings are typically the largest contribution to new floorspace consented in the city⁵.

Due to the nature of non-residential developments, there is significant variability in the total consented floorspace. No overall trends can be discerned. Further analysis is required to assess whether this is due to more efficient use of floorspace, restrained levels of growth, or other factors.

⁴ Unless stated otherwise, all data and analysis is sourced from Colliers (*Queenstown, Wanaka & Dunedin Market Review & Outlook 2017*)

⁵ Data from Statistics New Zealand



Data from Colliers suggests that retail vacancy rates in prime areas have been reducing due to increased tenant demand.

A separate quarterly analysis of retail vacancies along George Street shows that the vacancy rate has been relatively steady, between 8-12% since August 2014⁶. As at February 2018, there were 14 vacant retail units on George Street between Moray Place and Frederick Street, which equates to an 11% vacancy rate.

Analysis by Colliers points to a lack of vacant space and available development land for bulk retail use.

Net rents for retail properties have remained relatively flat since 2015.

CBD retail market

Grade	Vacancy rate	Net rents	Capital value (\$/m ²)
Prime	7.6%	\$500 - 1,150	\$5,880 - 20,000
Secondary		\$150 - 450	\$1,365 - 5,295

Strong business confidence has resulted in high demand for office space, particularly for higher grade buildings. This has been paralleled by an increase in supply, with a trend towards converting and upgrading older buildings.

These factors have resulted in rental costs remaining relatively flat. Vacancy rates have been rising for prime office space and decreasing for secondary grade space.

CBD office market

Grade	Vacancy rate	Net rents	Capital value (\$/m ²)
Prime	12%	\$190 - 235	\$2,235 - 3,240
Secondary		\$75 - 190	\$625 - 2,235

The industrial market has had high investor demand, particularly for prime freehold properties

Dunedin industrial market

Area	Grade	Net rents (office)	Net rents (warehouse)
Inner City	Prime	\$130 - 220	\$75 - 125
	Secondary	\$70 - 100	\$45 - 75
Kaikorai Valley	Prime	\$100 - 180	\$60 - 95
	Secondary	\$60 - 100	\$40 - 60
Mosgiel	Prime	\$90 - 150	\$55 - 90
	Secondary	\$60 - 90	\$40 - 55

NEXT STEPS

This monitoring report will be updated on a quarterly basis. The report template will evolve over time and, where useful, incorporate new sources of data as they become available.

A housing and business assessment is also currently being undertaken. This will assess 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.

⁶ Data from Adam Binns Commercial Limited