Dunedin market indicators report

December 2018

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DUNEDIN CITY COUNCIL
Kaunihera-a-rohe o Ōtepoti

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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 third monitoring report for Dunedin prepared under the NPS-UDC. Reports published in June each year will focus on long-term trends and include a wide range of indicators, while reports in other quarters (including this one) will provide short-term updates.

Dunedin's house price growth is continuing, with Dunedin having highest annual growth of all major New Zealand cities over the year to September (10.4%) and equal highest quarterly growth (2.4%)[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, there is a relatively high number of homes being consented compared to historic levels. October saw a spike in consented homes, particularly due to building consent being granted to Urban Cohousing Otepoti Limited for 21 units on the former High Street School site. However, overall 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 may result in new housing initiatives and has been expected to raise both supply and demand for housing over the short-medium term future. However, it is unclear how the recent announcement that the new hospital will be constructed in two stages will affect the influx of workers.

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 has also had small increases in value across the city (Table 3).

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.

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 has remained high, with a relatively consistent growth rate over the last year. This contrasts with national trends, with the nationwide growth rate decreasing to 4.6%[1]. Dunedin currently has the highest annual value growth rate of all major New Zealand cities and the equal highest quarterly growth[1].

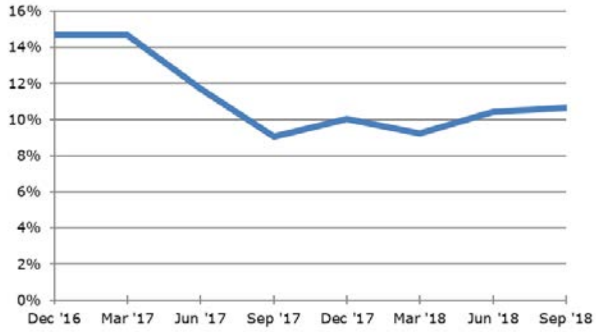

Figure 1: Change in average house value (year to date)[5]

Growth in rental costs decreased to 4.5% for the year to September.

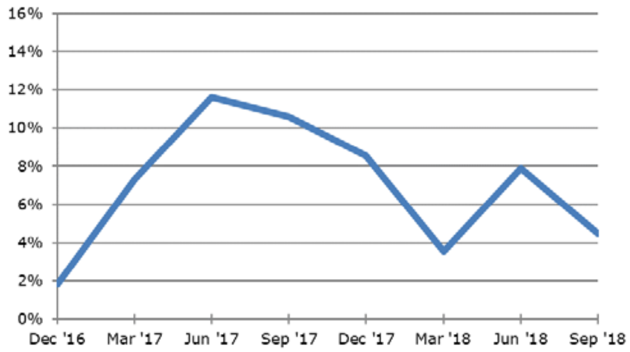

Figure 2: Changes in median rental costs (year to date)[6]

New construction[7]

The number of new consented homes has been relatively steady. Over the year to October 2018, 450 new homes were consented. As house value growth and population growth are both remaining high, the lack of a corresponding increase in residential developments suggests that there may be constraints in the development market.

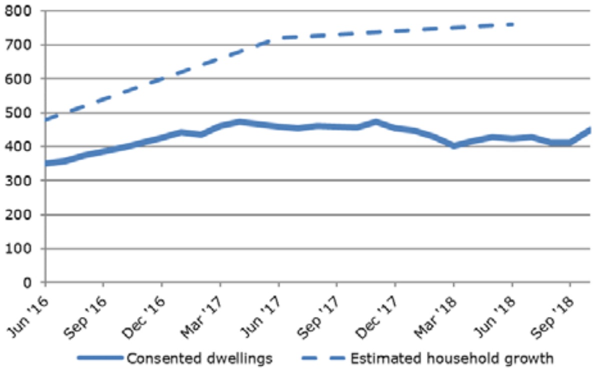

Figure 3: Consented housing capacity compared to household growth (year to date)[6,7]

Of the homes consented over the year to October 2018, 26% were multi-unit dwellings (such as townhouses, apartments, and other attached units). This is an increase from 16% over the preceding twelve months. 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[8].

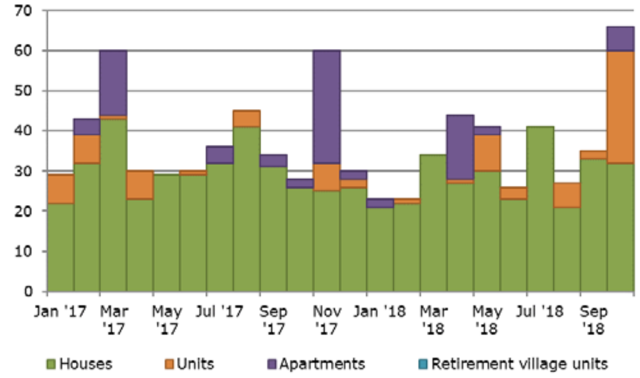

Figure 4: Newly consented dwellings by month

Market operation[1]

The proportion of sales to multiple property owners has remained above one third after a jump last quarter. This reverses a previous longer trend of declining sales to this group and suggests an investor confidence in Dunedin. The lower 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 high portion of purchases from multiple home owners also suggests that there may have been little impact from recent government policy changes that had been expected to reduce the attractiveness of residential properties to property speculators and investors. These included the Healthy Homes Bill, bright-line test extension and removal of negative gearing.

The proportion of sales to first home buyers has also remained high at 24%.

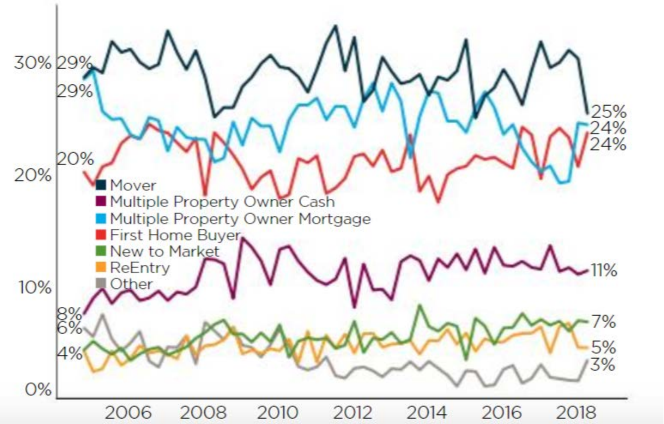

Figure 5: CoreLogic buyer classification

BUSINESS MARKETS

The third quarter of 2018 saw a moderate amount of consented commercial floorspace, including industrial and farming developments[7].

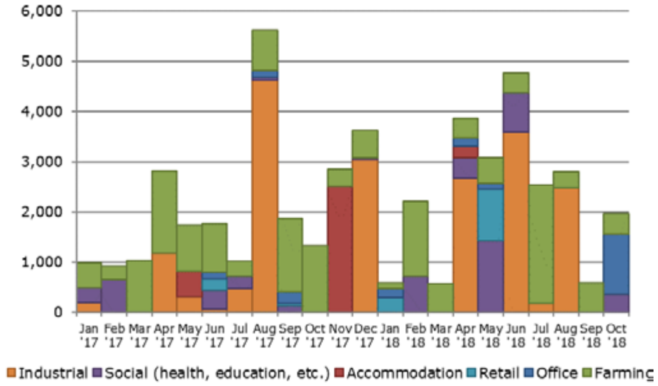

Figure 6: Consented new floor area[7]

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) shows that the vacancy rate has been relatively steady, between 8-12% of units since August 2014[9]. As at November 2018, the vacancy rate had dropped to approximately 9.4%.

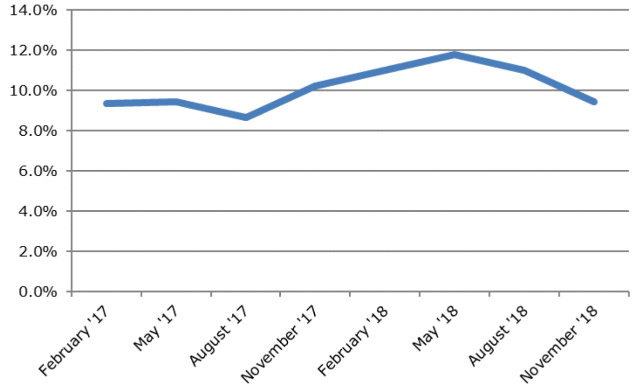

Figure 7: Retail unit vacancy rates in central George Street[9]

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 2018[2]
(2017 values in italics)

Grade	Net rents ($/m² pa)	Capital value ($/m²)	Market yields (%)
Prime	$500 - 1,200 *($500 - 1,150)*	$6,250 - 21,820 *($5,880 - 20,000)*	5.5 - 8% *(5.75 - 8.5%)*
Secondary	$150 - 450 *($150 - 450)*	$1,365 - 5,625 *($1,365 - 5,295)*	8 - 11% *(8.5 - 11%)*

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 monitored[2].

Table 2: CBD office market: June 2018[2]
(2017 values in italics)

Grade	Net rents ($/m² pa)	Capital value ($/m²)	Market yields (%)
Prime	$190 - 225 *($190 - 235)*	$2,235 - 3,240 *($2,235 - 3,240)*	7.25 - 8.25% *(7.25 - 8.5%)*
Secondary	$75 - 190 *($75 - 190)*	$625 - 2,235 *($625 - 2,235)*	8.75 - 11.0% *(8.55 - 12%)*

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 market[2]. This may be causing constraints for tenants wanting to relocate or enter the market.

Table 3: Dunedin industrial market: June 2018[2]
(2017 values in italics)

Area	Grade	Net office rents ($/m² pa)	Net warehouse rents ($/m² pa)
Inner City	Prime	$130 - 230 *($130 - 220)*	$70 - 135 *($75 - 125)*
	Secondary	$85 - 135 *($70 - 100)*	$45 - 85 *($45 - 75)*
Kaikorai Valley	Prime	$100 - 200 *($100 - 180)*	$60 - 100 *($60 - 95)*
	Secondary	$65 - 110 *($60 - 100)*	$40 - 65 *($40 - 60)*
Mosgiel	Prime	$90 - 170 *($90 - 150)*	$60 - 90 *($55 - 90)*
	Secondary	$55 - 100 *($60 - 90)*	$40 - 55 *($40 - 55)*

NEXT STEPS

This monitoring report will be updated on a quarterly basis, with a more comprehensive version published annually in June. 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 in early 2019.

SOURCES

[1] CoreLogic Quarterly Property Market & Economic Update New Zealand – Quarter 3, 2018

[2] Colliers International Otago 2018-19 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] Dunedin City Quarterly Economic Monitor – September 2018, Infometrics

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

[7] Building consents issued, Statistics New Zealand

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

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