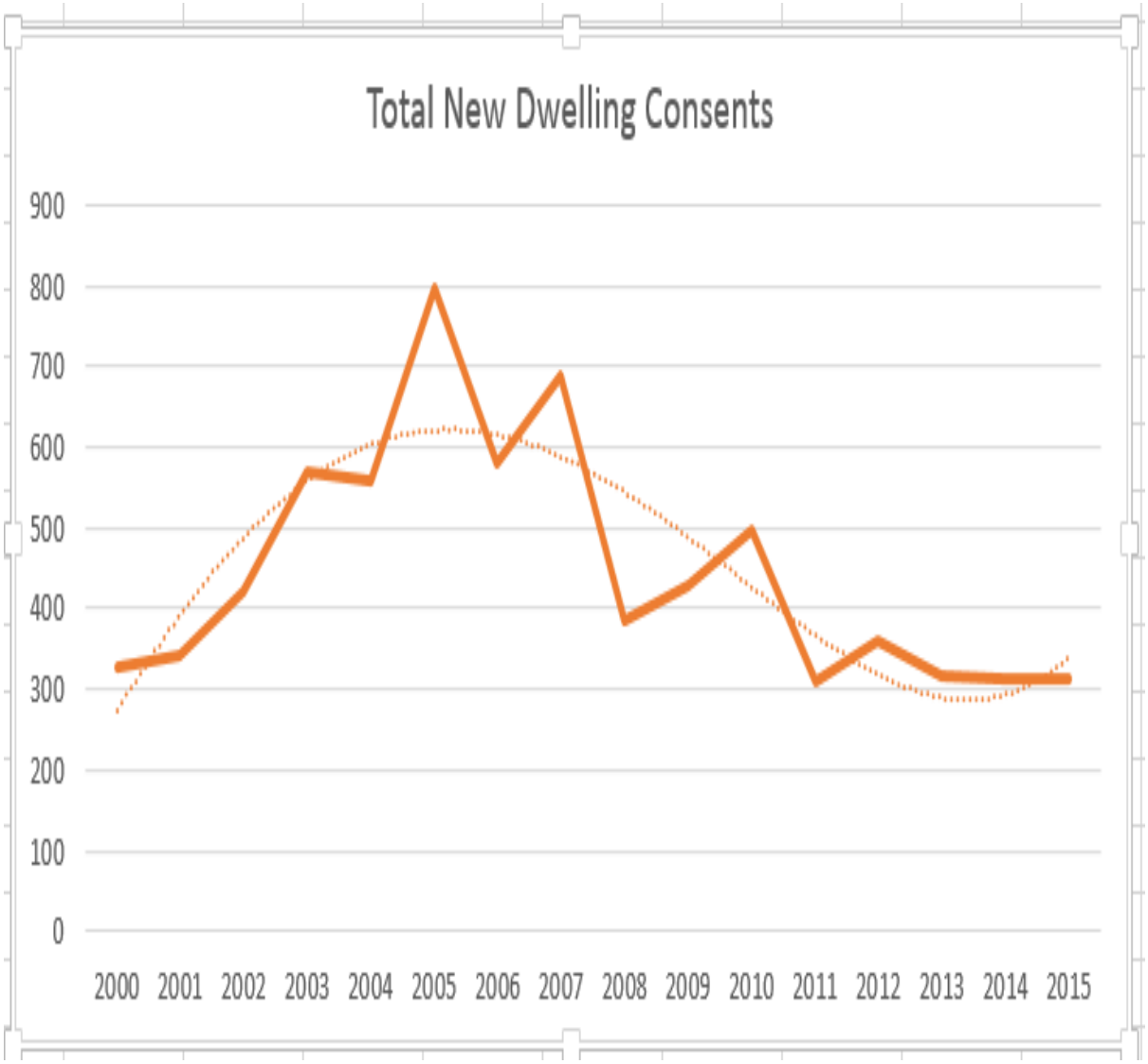
Heretaunga Plains Urban Development Strategy 2015-2045



Distribution of New Housing Growth 2000-2015

February 2016

1.0 PURPOSE

1.1 While HPUDS is a forward planning strategy, past patterns and rates of development can give clues into market demands and trends which can help give a picture of future needs and emerging issues. This report examines residential and rural development over the last 15 years to help inform planning for the next 30 years. The data contained in the report has helped inform the Market Preferences and Demand prepared by Telfer Young and their conclusions from the data are not repeated here.

1.2 Some additional conclusions and observations are drawn from the data as follows:

- The 15 year period before 2000 was characterised by unbalanced supply of greenfields land resulting in most of the new development occurring first in Taradale and Greenmeadows and then in Havelock North.
- The 15 years from 2000 covered a period of high subdivision and building activity until 2009 then fell back to pre 2000 levels.
- Average urban lot creation for the period was 200 p.a. for Hastings and 170 p.a. for Napier, while new dwelling consents averaged around 160 for Hastings and 180 for Napier (including apartments).
- Rural and Rural residential lot creation followed a similar pattern averaging out at around 180 p.a. but with a much lower building rate of around 100 p.a. which suggests an oversupply, but the data needs further refinement.
- A lack of greenfields options in Hastings and Napier until the mid - 2000's after Knightsbridge reached capacity, is reflected in growth in the Havelock North market.
- Northwood, Clive and Lyndhurst in Hastings and Citrus Grove, Parklands and Te Awa in Napier becoming available has reduced building rates in Arataki.
- Infill consents rose during the property market boom even with an ample supply of greenfields residential sections and rising land prices.
- Market demand for locations is much more varied than it would appear during periods of constrained supply. Once the supply side diversifies, it appears that people can and do make different choices.
- The proportion of greenfields development has clearly been trending upwards.
- New house construction outstripped household growth from an approximate balance at the beginning of the period until the GFC in 2008, when the pattern reversed, but remains largely in balance.

- New dwelling consents appear to be the more optimistic projector for forward land supply than settled sales.
- Overall there are signals that the new housing market is on the rise recently and accordingly it is important that the pinch points in residential land supply are addressed as soon as possible.

2.0 Development Prior to 2000

2.1 Prior to local government amalgamation in 1989 the urban growth directions for Napier City, Hastings City and Havelock North Borough relied in the first instance on approval from the Local Government Commission to annex land from the Hawke's Bay County Council, which was fiercely protective of the versatile and productive soils.

2.2 The Town and Country Planning Act 1953 had introduced compulsory planning and restrictions on land use in rural zones. In 1973 the Act was amended to include, among other things, *"the avoidance of encroachment of urban development on, and the protection of, land having a high actual or potential value for the production of food"* and this was carried over into the Town and Country Planning Act 1977.

2.3 The protection of good soils was accordingly reflected in the County and City Planning Schemes and to a lesser extent that of the Borough, reflecting the importance of the resource to the local and national economy. These were highly relevant matters for the Commission in deciding on boundary changes, and to a large measure resulted in the establishment of Flaxmere. By the mid-seventies, Flaxmere, originally conceived as a middle class suburb, was starting to become less desirable for the middle market, with buyers preferring the Havelock North lower slopes and Napier (Taradale and Greenmeadows). By the late 1980's limited greenfields development areas in the study area resulted in significant rates of infill development, including town house development.

2.4 Following local government amalgamation in 1989, the new Councils were free to pursue their own urban planning without the constraint of seeking boundary adjustments from the Local Government Commission. In addition, the Resource Management Act 1991 (RMA) replaced the Town and County Planning Act, introducing the concept of sustainable management. The Act changed the focus of planning to focus on impacts on the environment, removing the explicit concern for preserving food production potential, but introducing an arguably less stringent requirement to sustain the life supporting capacity of soils.

2.5 Following local government reform, both Hastings and Napier set about developing fresh urban development strategies. The Napier Urban Growth Strategy (NUGS) was released in 1992 and the Hastings Strategy (HUDS) in 1993.

2.6 The Hastings study was preceded in 1990 by two urban expansion reviews to address short term residential growth pressures. The reports noted that the development potential of the Hastings sites would depend largely on engineering constraints and costs that should be addressed in a comprehensive fashion as a long term project. The recommended

developments at Havelock North however, would be easier to service and provided easier opportunities to provide the short term relief valve sought by Council. As a result much of the new growth was located in Havelock North until Knightsbridge was developed from around the mid 1990's.

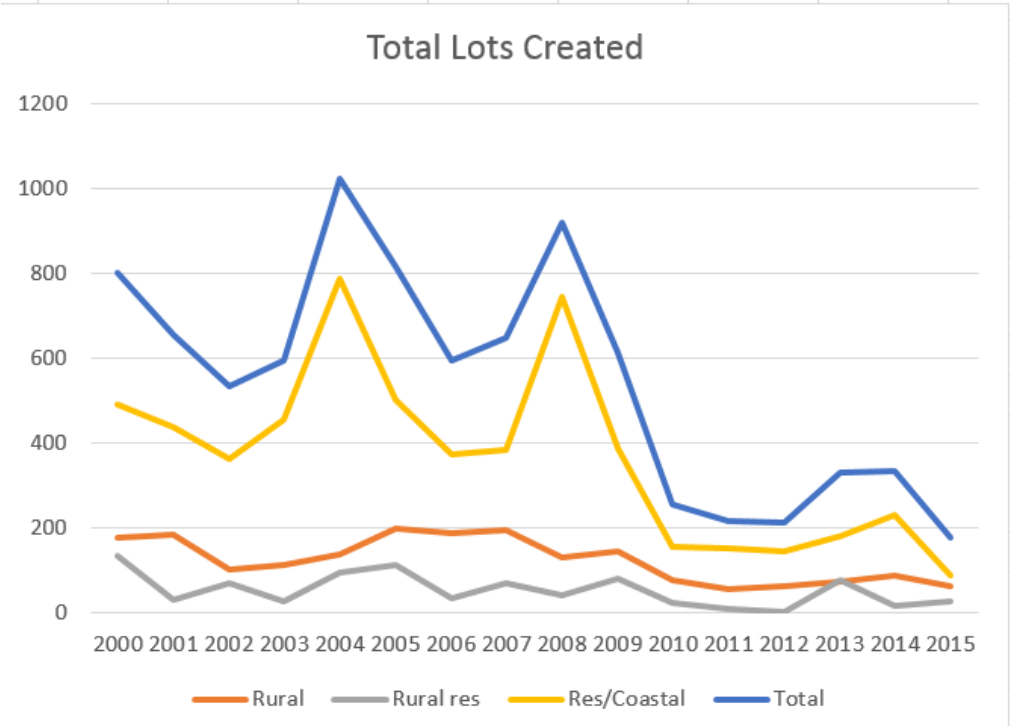
3.0 Subdivision 2000-2015

3.1 Table 1 and Figure 1 below show the total number of consented lots created by subdivision consent. Historic subdivision consent data is not as reliable as building consent data as S223 and S224 data is not always recorded and there may be variations on a consent that alter lot numbers so the number of created sites may be less than estimated here. Total figures are therefore of interest, but not sufficient in themselves to be a quantitative reconciliation with other variables. They do however, show general trends and proportions.

Table 1 Total Consented Lots by Type

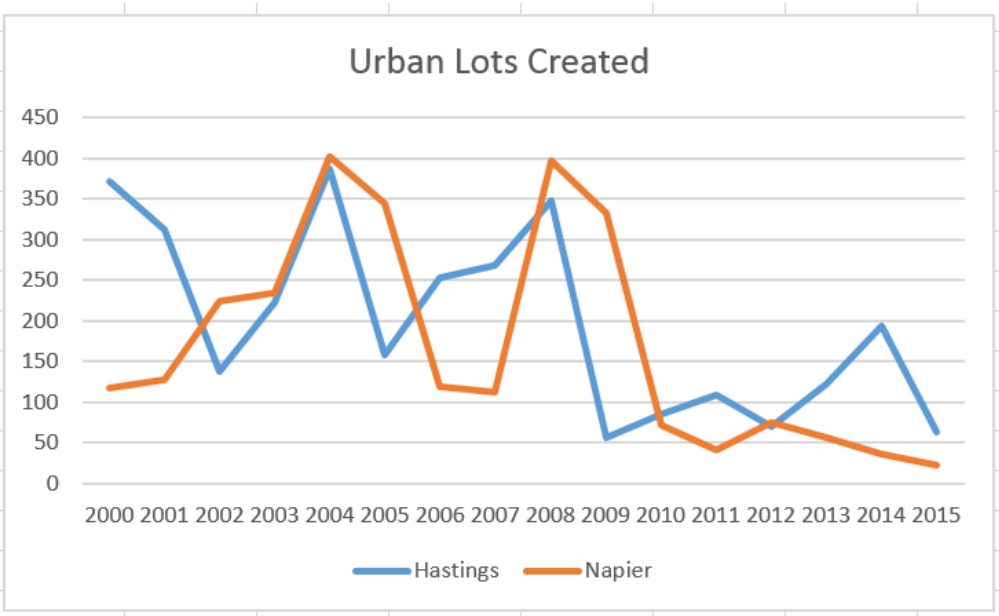
	Rural	Rural res	Res/Coastal	Total
2000	177	134	490	801
2001	184	31	439	654
2002	102	68	362	532
2003	111	26	456	593
2004	138	96	789	1023
2005	200	112	502	814
2006	189	33	372	594
2007	194	71	382	647
2008	132	42	745	919
2009	145	79	389	613
2010	76	22	156	254
2011	55	9	151	215
2012	64	3	145	212
2013	74	75	180	329
2014	87	16	229	332
2015	63	28	86	177
Total	**1991**	**845**	**5873**	**8709**
Ave	**129**	**54**	**386**	**569**

Figure 1 Total Lots Consented by Type



3.2 There were large spikes in 2004 and 2007 with that continuing in 2005 and 2009 in Napier, with the introduction of the Te Awa Estates properties as a staged development, which is shown in Figure 2 below for urban lots. There was an across the board drop following 2009 to 2012 as the market responded to the GFC. The Hastings spike represented two large stages in Arataki which achieved S224 in 2015. Average urban lot creation for the period was 200 p.a. for Hastings and 170 p.a. for Napier. Rural and Rural residential lot creation followed a similar pattern averaging out at around 180 p.a.

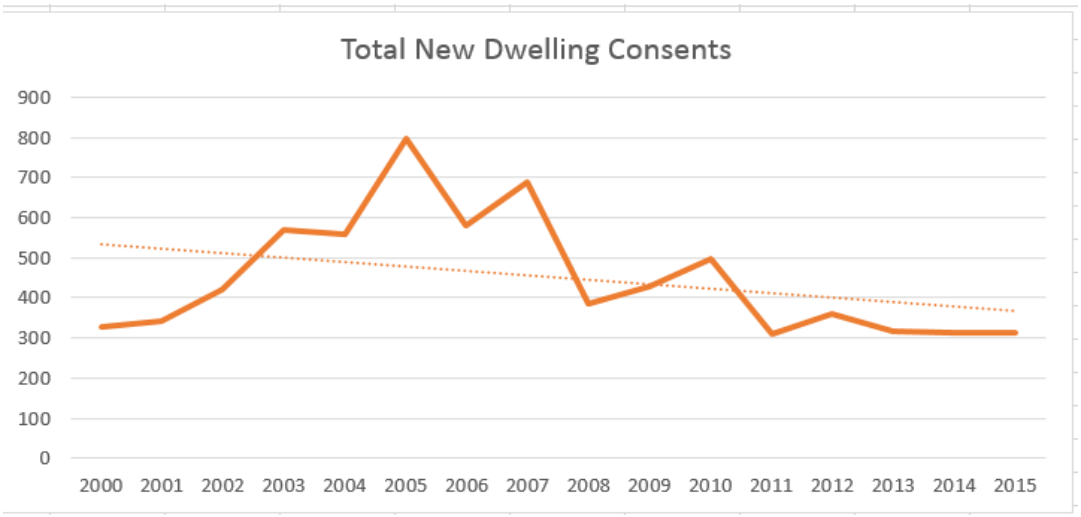
Figure 2 Urban Lots Created



4.0 New Dwelling Consents 2000-2015

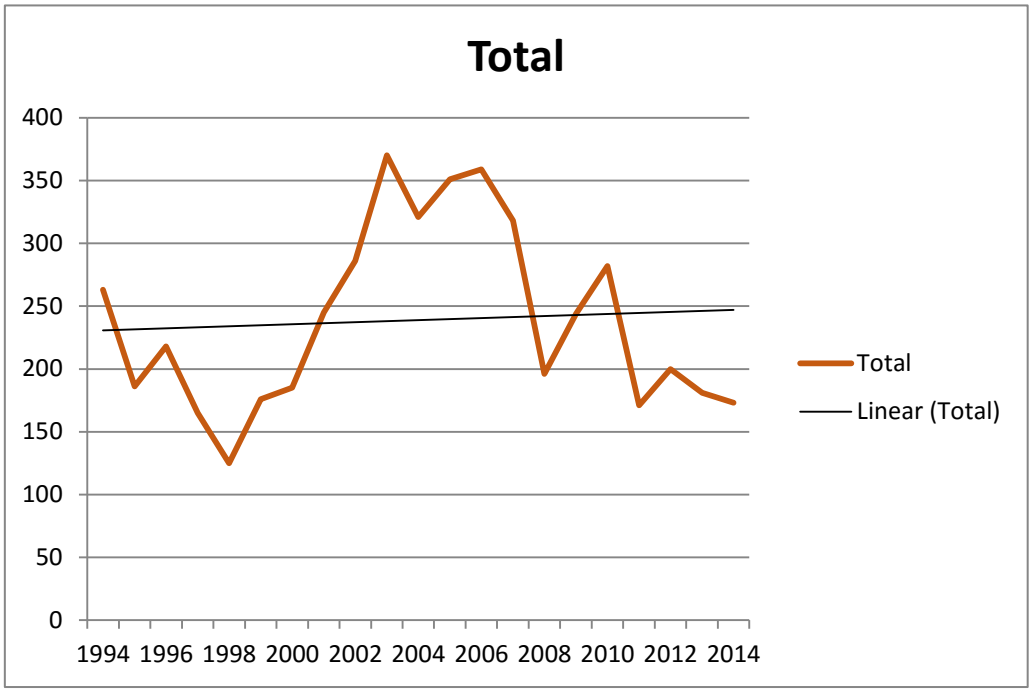
4.1 Figure 4 below shows the new dwelling growth track for the combined authorities. Table 2 breaks this down by general location.

Figure 4 Total Combined Dwelling Consents NCC and HDC



4.2 While the linear trend line shows a decline, the 2015 level is about the same as 2000 before the property market boom and bust. HDC data back to 1994 shown in Figure 5 below smooths out that cyclical effect and shows an overall slight increase which would be consistent with low levels of household growth and there is no reason why this would not be the case in Napier also.

Figure 5 Hastings Growth Track from 1994.



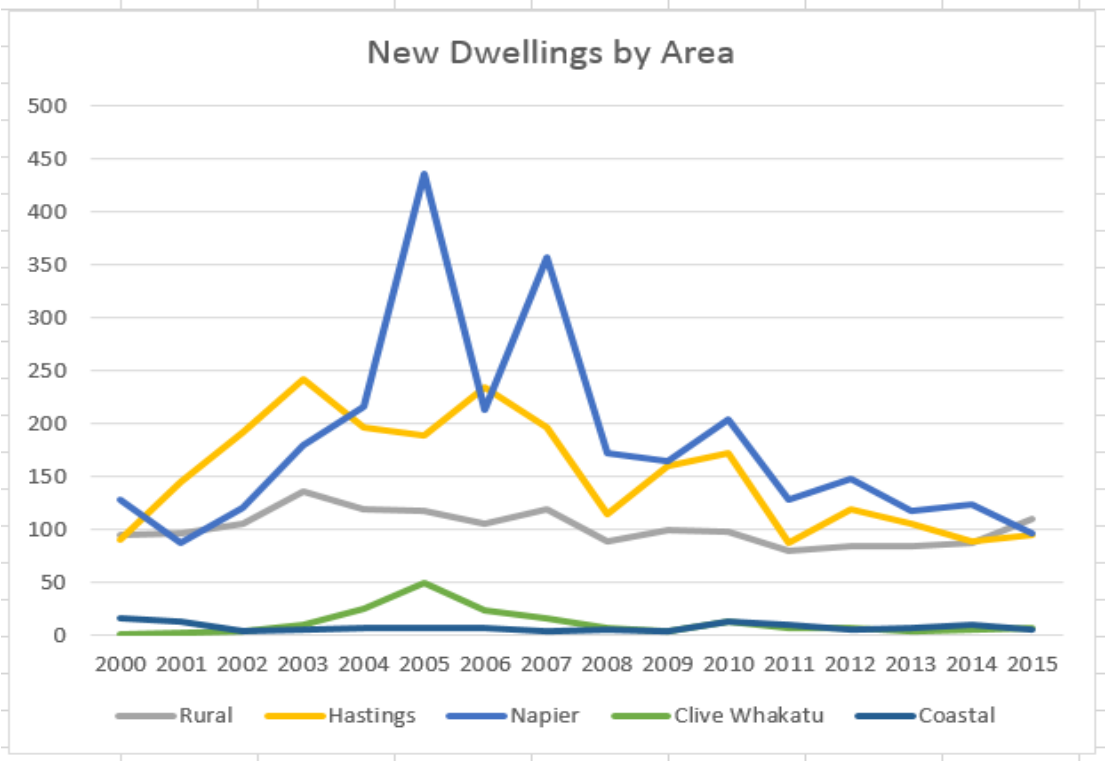
4.3 Indeed the post 2000 track for Hastings and Napier shown in Table 2 and Figure 6 below shows a reasonably similar pattern once the 2005 and 2007 spikes are removed, which corresponded with significant apartment developments. Rural building has averaged around 100 p.a. but with some

reflection of the property market boom bust. Hastings and Napier have averaged similar levels overall and Clive shows a small contribution in 2005-2006 corresponding with greenfields rezoning and development there.

Table 2 New Dwelling Consents by Area

Combined	Total	Rural	Hastings	Napier	Clive Whakatu	Coastal
2000	326	94	89	128	0	15
2001	341	96	144	87	2	12
2002	423	105	192	120	3	3
2003	571	136	242	179	9	5
2004	559	118	196	215	24	6
2005	797	117	189	436	49	6
2006	582	105	234	213	23	7
2007	689	118	196	356	15	4
2008	385	88	114	172	6	5
2009	430	99	159	164	4	4
2010	497	97	171	203	13	13
2011	311	80	87	128	6	10
2012	362	84	119	148	6	5
2013	316	84	105	117	4	6
2014	312	87	88	123	5	9
2015	312	110	94	96	7	5
Total	***7213***	***1618***	***2419***	***2885***	***176***	***115***
Average	***451***	***101***	***151***	***180***	***11***	***7***
Max	***797***	***136***	***242***	***436***	***49***	***15***
Min	***311***	***80***	***87***	***87***	***0***	***3***
Median	***404***	***98***	***152***	***156***	***6***	***6***
%	***100***	***22***	***34***	***40***	***2***	***2***

Figure 6 New Dwelling Consents by General Location

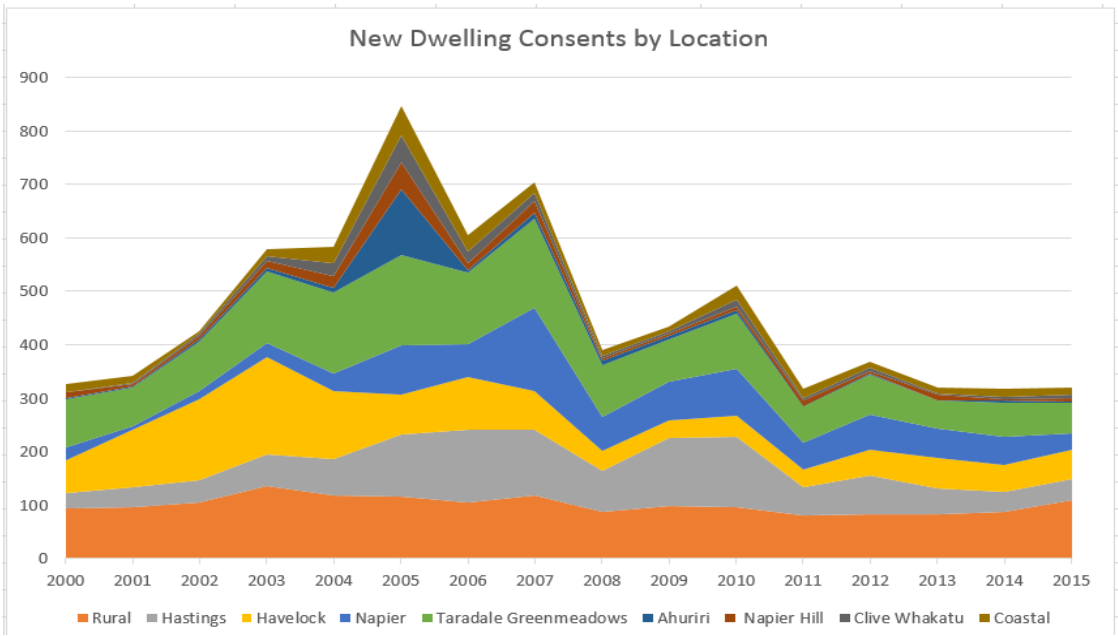


4.4 Table 3 below breaks this data into more locations, while Figure 7 shows this data graphically.

Table 3 New Dwelling Consents by Location

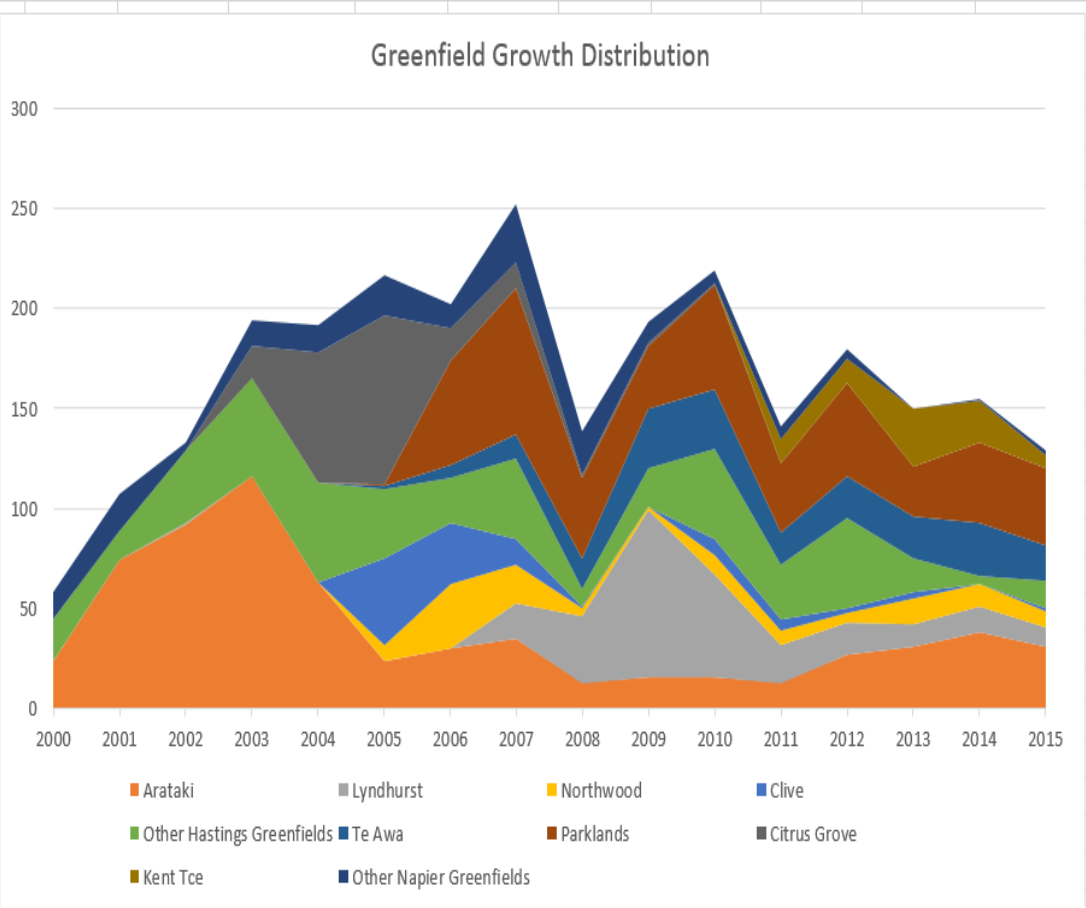
Combined	Total	Rural	Hastings	Havelock	Napier	Taradale Greenmeadows	Ahuriri	Napier Hill	Clive Whakatu	Coastal
2000	326	94	29	60	25	90	3	10	0	15
2001	341	96	38	106	8	71	4	4	2	14
2002	423	105	41	151	17	91	5	7	3	6
2003	571	136	58	184	25	135	6	13	9	14
2004	559	118	68	128	33	151	8	23	24	30
2005	797	117	115	74	92	170	123	51	49	55
2006	582	105	135	99	63	132	5	13	23	30
2007	689	118	123	73	156	166	12	22	15	19
2008	385	88	77	37	64	95	10	3	6	11
2009	430	99	127	32	72	80	6	6	4	8
2010	497	97	131	40	87	104	6	6	13	26
2011	311	80	53	34	50	67	2	9	6	16
2012	362	84	72	47	66	76	2	4	6	11
2013	316	84	48	57	55	51	1	10	4	10
2014	312	87	38	50	53	63	4	3	5	14
2015	312	110	38	56	30	58	2	6	7	12
Total	***7213***	***1618***	***1191***	***1228***	***896***	***1600***	***199***	***190***	***176***	***291***
Average	***451***	***101***	***74***	***77***	***56***	***100***	***12***	***12***	***11***	***18***
Max	***797***	***136***	***135***	***184***	***156***	***170***	***123***	***51***	***49***	***55***
Min	***311***	***80***	***29***	***32***	***8***	***51***	***1***	***3***	***0***	***6***
Median	***404***	***98***	***63***	***59***	***54***	***91***	***5***	***8***	***6***	***14***

Figure 7 New Dwelling Consents by Location



4.5 The apartment spikes in Ahuriri and Napier and relatively stable rural growth are again clearly evident. A lack of greenfields options in Hastings and Napier after Knightsbridge reach capacity is reflected in growth in the Havelock North market until Northwood, Clive and Lyndhurst became available in 2004, 2005 and 2008 respectively in Hastings and Citrus Grove, Parklands and Te Awa in 2003, 2005 and 2009 respectively in Napier. The above figures however, include infill, which is discussed below, but Figure 8 shows this more clearly just for the main greenfields growth areas (note 'Other Hastings Greenfields' also includes Havelock North locations).

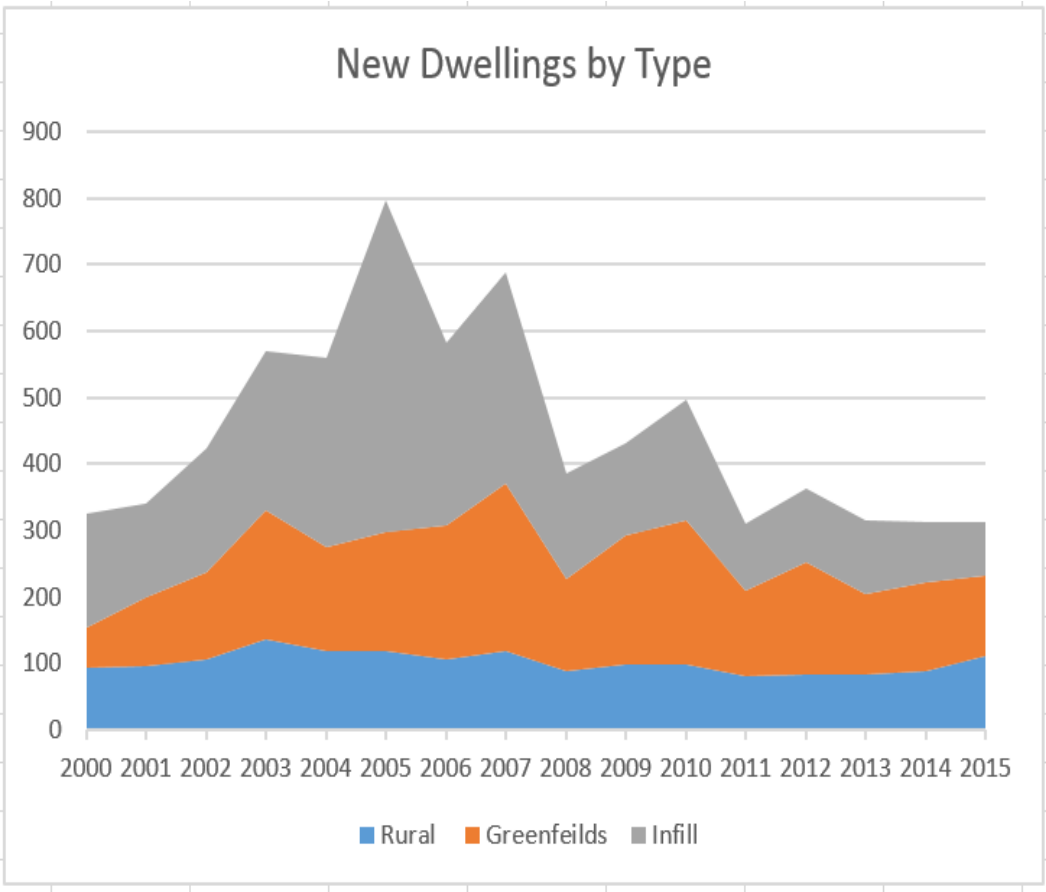
Figure 8 Distribution of Greenfields Growth Areas



4.6 Of note here also is the effect Lyndhurst appears to have had on Arataki from 2009, but a freehold retirement village has tied up a large chunk of the supply and the developer has had financial difficulties which meant the balance of the single household development slowed and stalled from around 2011, at which point uptake started to rise in Arataki. This all suggests that the market demand for locations is much more varied than it would appear during periods of constrained supply when fewer choices are available. Once the supply side diversifies, it appears that people can and do make different choices.

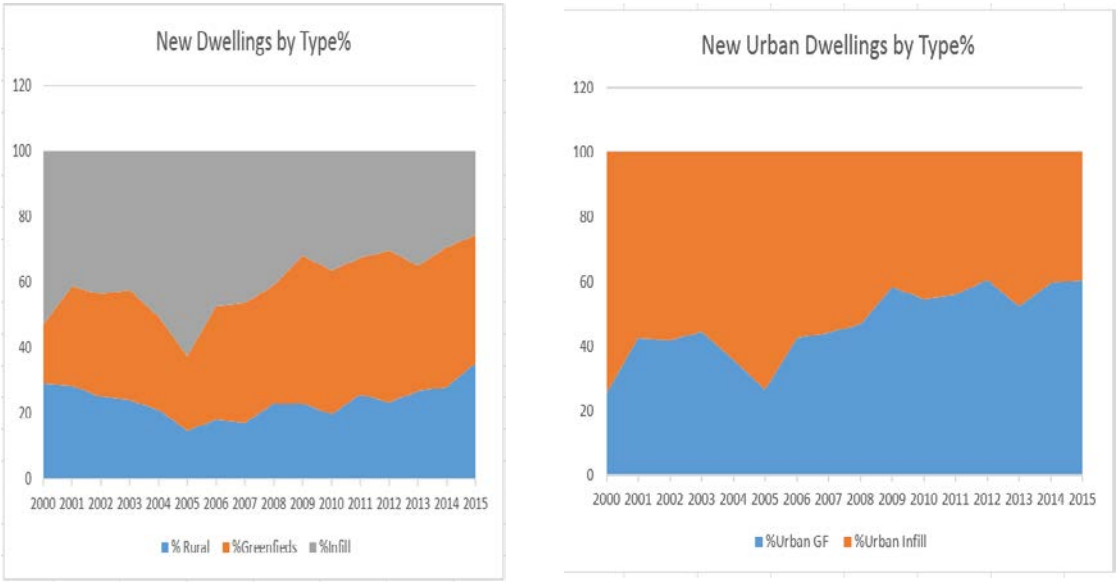
4.7 Infill and Rural development options are also part of the market. Figure 9 below shows the number of consents by type of development, which also shows the effect of the property boom between 2002 and 2008.

Figure 9 New Dwelling Consents by Type of Development



4.8 Notably infill consents rose even with ample supply of greenfields residential sections and rising land prices, suggesting the new housing market had expanded across income bands with the availability of relatively cheap credit. The 2005 peak is likely due to the Ahuriri apartment developments. The overall pattern of greenfields to infill development is however demonstrated in Figure 10 which shows the development types as a percentage of the total and as a percentage of the urban consents only. Greenfields has clearly been trending upwards, particularly when the large retirement villages are included in the greenfields total. Of course HUPUDS intends that over the next 30 years there is a transition away from greenfields and rural housing development to infill and intensification, which will require a reversal of the current trend.

Figure 10 Percentages of New Dwelling Consents by Type of Location

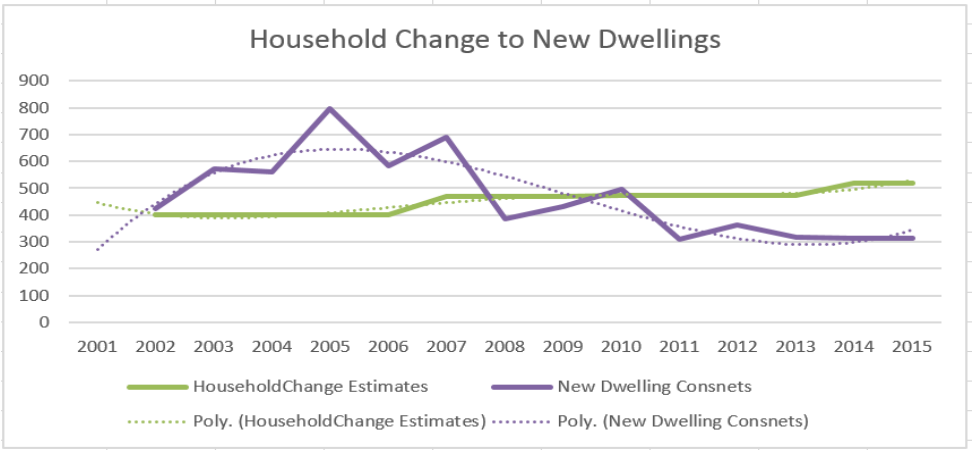


5.0 Household Change and New Dwellings Balance

5.1 The creation of new households is a fundamental driver of demand for new housing, however market dynamics introduce a number of other dimensions around affordability (as discussed elsewhere) so new dwelling growth and household growth are not always well aligned in time. It would however, be expected that, provided the conditions for housing supply are not fundamentally out of kilter, household growth and new dwelling growth would converge over longer periods of time. This would result at the bottom of the market with upward pressure on rents and increasing house prices, pushing the next levels to shuffle upwards, ultimately to new builds. The provision or lack of government subsidised housing is a likely indicator of market conditions being out of kilter as there is a widening gap between incomes and GDP growth.

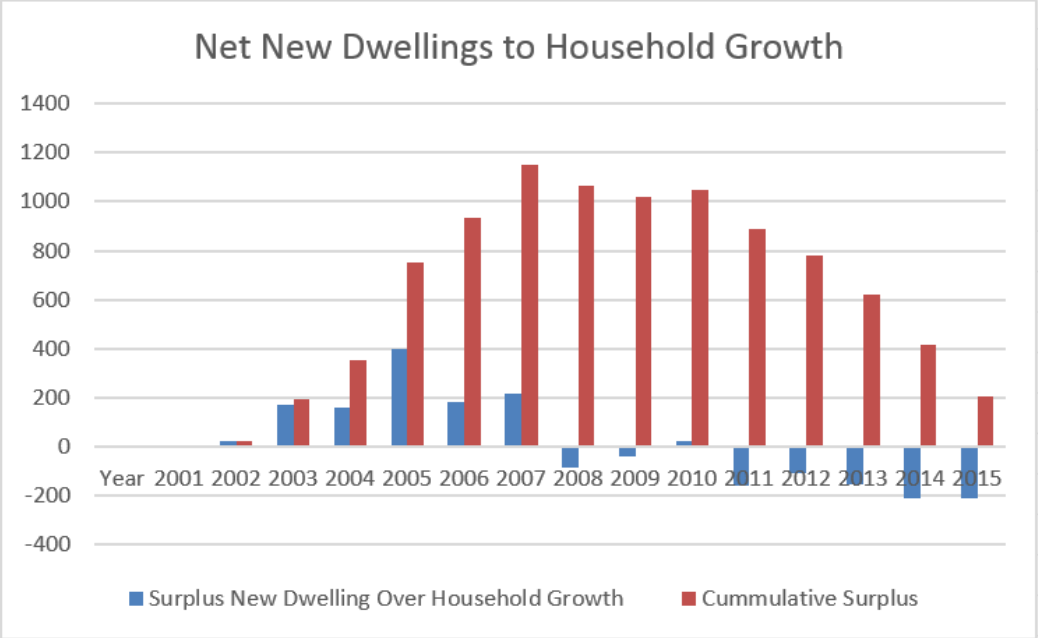
5.2 Figure 11 below tracks new dwelling consents to estimated household growth over the 2001-2015 period.

Figure 11 New Dwelling Consents to Household Growth



5.3 New house construction outstripped household growth from an approximate balance at the beginning of the period until the GFC in 2008, when the pattern reversed, apart from a small recovery in 2010. There are signs of a recovery coming in 2016, which would suggest a property cycle of around 8 years may be at play. Looking at Figure 12 below, which tracks the cumulative supply balance against household growth, we can see that we are close to being back at balance after a fairly sustained period of surplus, (bearing in mind the household growth estimates are flat lined between census years). On the whole this does not suggest a worsening housing situation over 2000 conditions.

Figure 12 Net New Dwellings to Household Growth



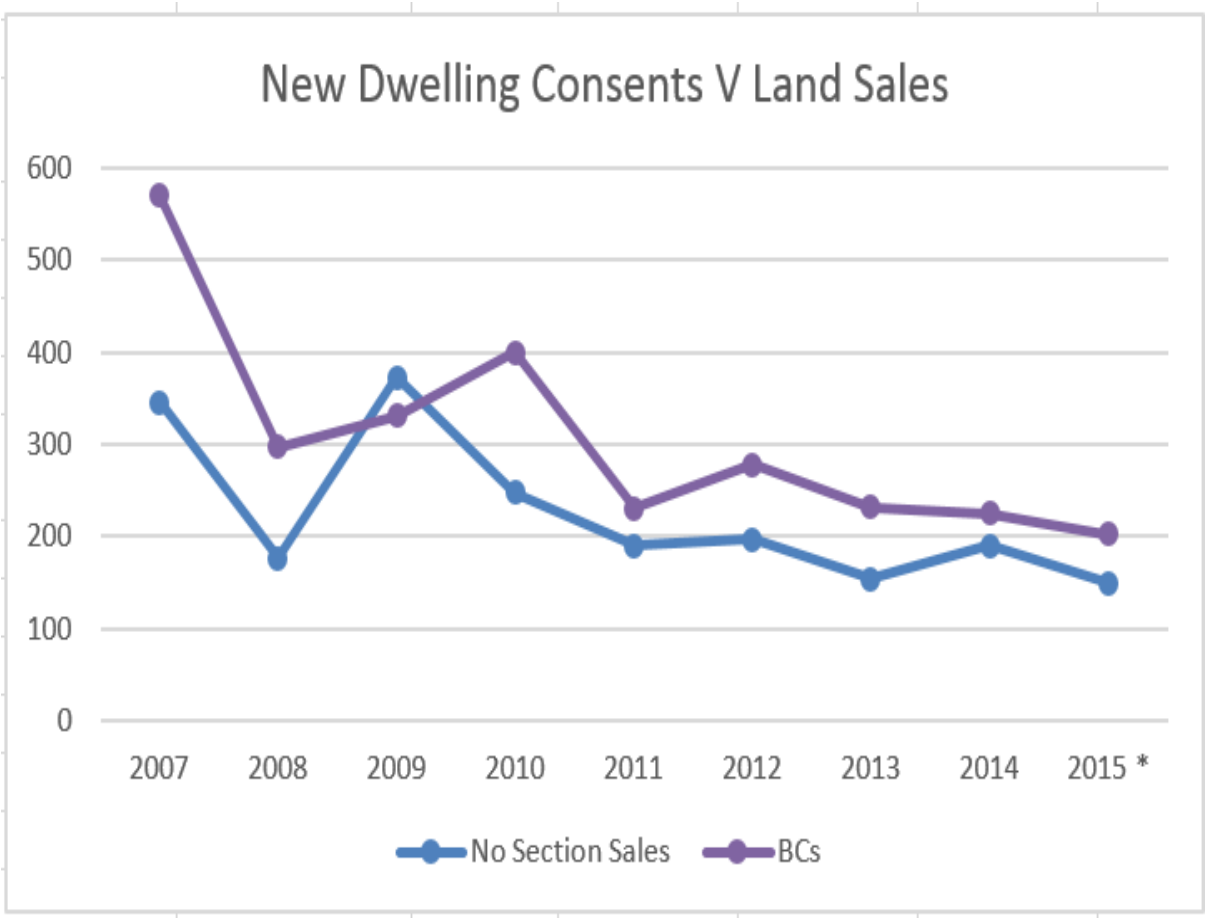
6.0 Section Sales Data

6.1 New dwelling consents are usually used to project forward land supply needs. The property market however, works off transactions, so there can be a disconnect in language between available land for building and the markets focus on availability for sale, which can be affected by a myriad of other external factors than simple housing need. Developers, real estate agents and builders are ultimately concerned with sales volumes and prices

6.2 In terms of projecting forward land needs, Figure 13 shows the vacant land sales trend since 2007, by comparison with new dwelling consents as recorded at the end of January 2016. Note the data is only for sales that are settled, but the sale date is the date of offer acceptance. There is a lag between acceptance of offer, settlement and the registering of the sale, so the 2015 figures are likely to be slightly lower than the actual sales (this lag is up to a couple of months post settlement date). On this basis new dwelling

consents appears to be the more optimistic projector for forward land supply than settled sales.

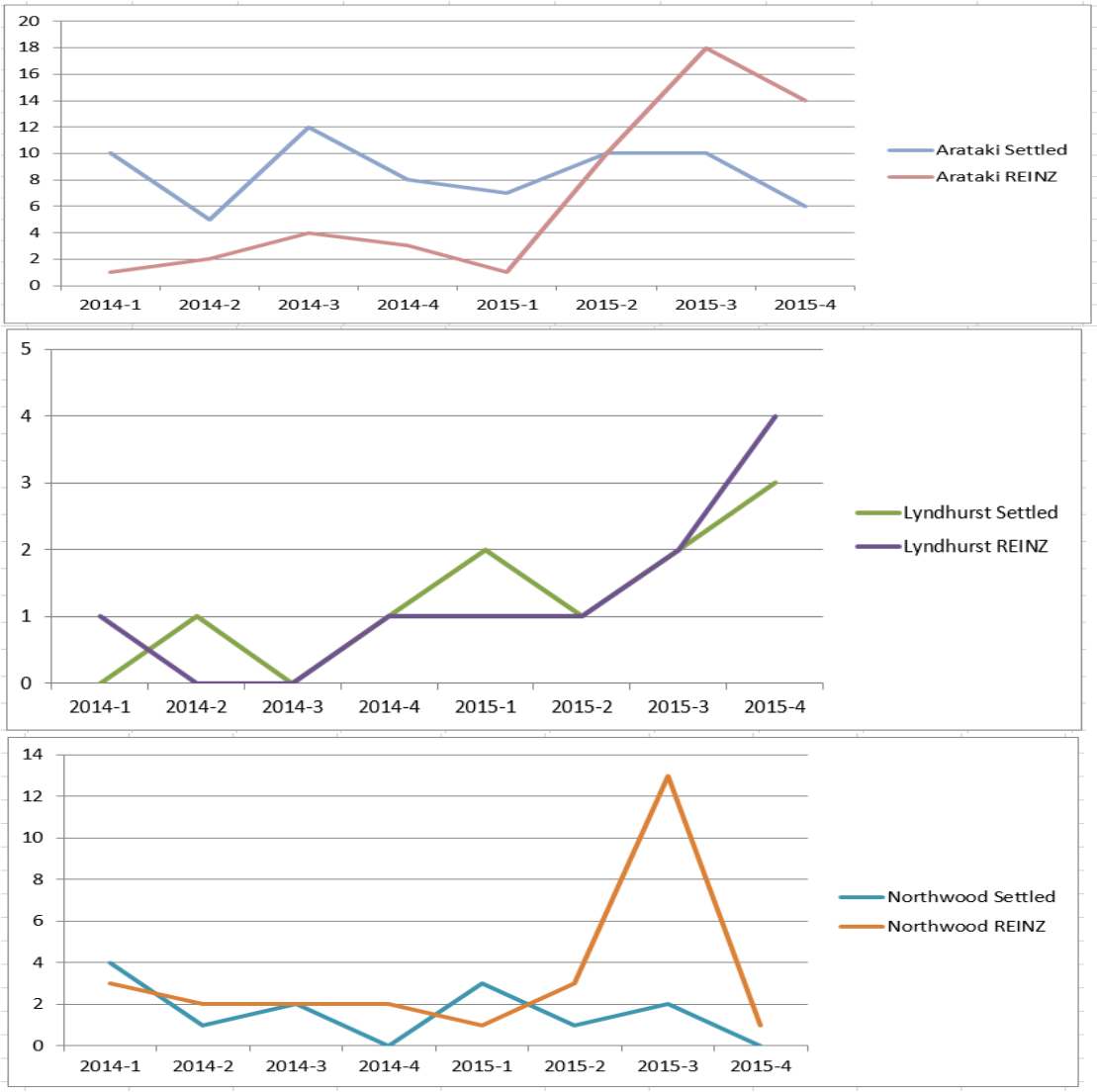
Figure 13 Sales to New Dwelling Consents



6.3 REINZ data, which is inputted by Real Estate provides the most recent "sale" data however as noted these are only offers accepted and may not signify an actual settled sale and some developers have long settlement periods. Furthermore this data does not include private sales and in Arataki, Landsdale market and sell their own properties themselves so less than half the sales are recorded.

6.4 Having said that, the level of unconditional sales over the past six months shows considerable market movement occurring that has yet to show through in settled sales data. Figure 14 shows the last eight quarter REINZ unconditional sales data in comparison with settled sales for the three main greenfields growth areas.

Figure 14 Settled versus Unconditional Sales



6.5 A large volume of these sales are on long settlement periods to the end of June 2016, so will not show in settled sales until after then. In addition, a significant proportion is understood to be to housing companies eager to satisfy buyer enquiry. In this respect the Auckland housing market has reportedly reached a point where many Aucklanders are looking to the regions to satisfy their housing needs, but the lower interest rates are likely to have stimulated more interest ahead of fears that these may rise in the future.

6.6 Overall there are signals that the new housing market is on the rise recently and accordingly it is important that the pinch points in residential land supply are addressed as soon as possible.

7.0 CONCLUSION

7.1 The 15 year period before 2000 was characterised by unbalanced supply of greenfields land resulting in most of the new development occurring first in Taradale and Greenmeadows and then in Havelock North. The 15 years from 2000 covered a period of high subdivision and building activity until 2009 then a fall back to pre 2000 levels.

7.2 Average urban lot creation for the period was 200 p.a. for Hastings and 170 p.a. for Napier, while new dwelling consents averaged around 160 for Hastings and 180 for Napier (including apartments). Rural and Rural residential lots creation followed a similar pattern averaging out at around 180 p.a. but with a much lower building rate of around 100 p.a. which suggests an oversupply, but the data needs further refinement.

7.3 A lack of greenfields options in Hastings and Napier until the mid 2000's after Knightsbridge reached capacity is reflected in growth in the Havelock North market. Northwood, Clive and Lyndhurst in Hastings and Citrus Grove, Parklands and Te Awa in Napier reduced building rates in Arataki from around the mid 2000's. Market demand for locations is much more varied than it would appear during the period of constrained supply. Once the supply side diversifies, it appears that people can and do make different choices.

7.4 Infill consents also rose during the property market boom even with an ample supply of greenfields residential sections and rising land prices. The proportion of greenfields development has however, clearly been trending upwards.

7.5 New dwelling consents appears to be the more optimistic projector for forward land supply than settled sales and while new house construction outstripped household growth from an approximate balance at the beginning of the period until the GFC in 2008, when the pattern reversed, it remains largely in balance. There are signs that building rates may be about to rise over the next year or two.