



HASTINGS & NAPIER URBAN AREA

Housing and Business Market Indicator Monitoring

Baseline Report to 31 December



Published April 2018

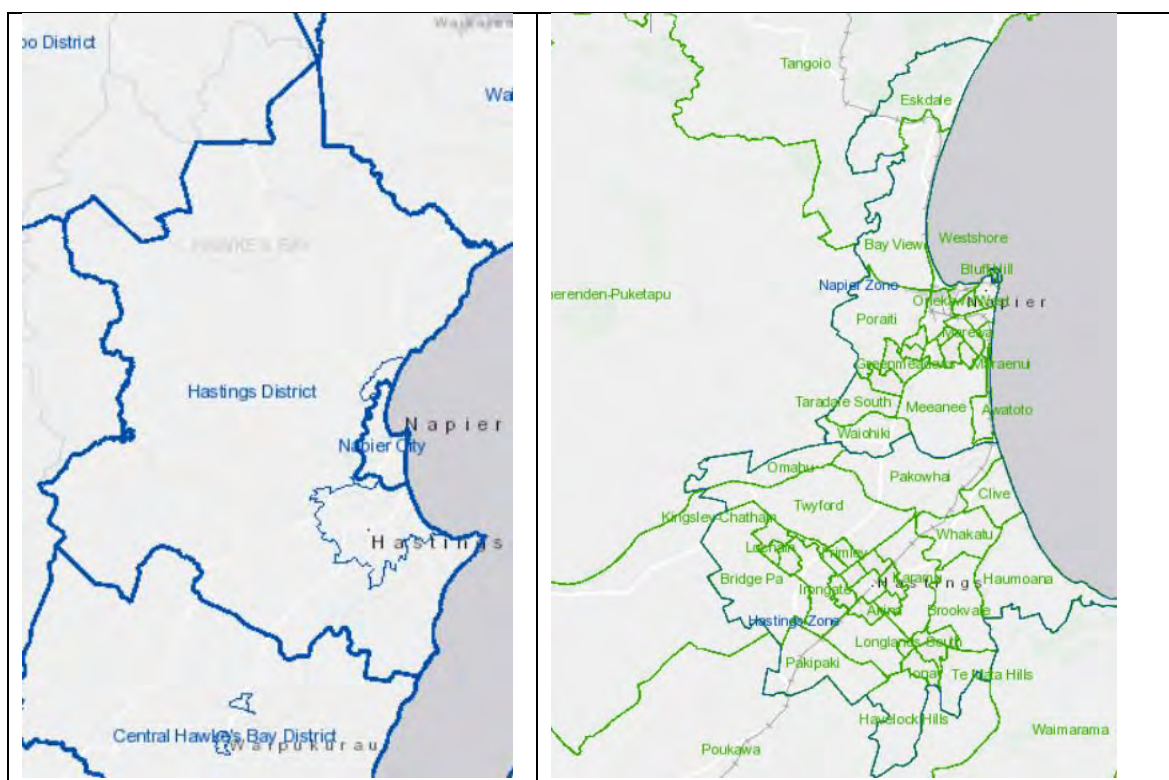
1. Purpose of this Report

- 1.1. This report has been prepared by the Hastings District, Napier City and Hawke's Bay Regional Councils to provide an overview of the Hastings Napier property market using a selection of housing and business indicators. It is designed to meet the governments National Policy Statement on Urban Development Capacity, with the indicators updated on a quarterly or annual basis.
- 1.2. This and subsequent iterations of the report are intended to ensure the Hastings, Napier and Hawke's Bay Regional Councils are well informed about local market activity that influences the adequacy of urban development capacity and socioeconomic outcomes that it affects. It is anticipated that this will enable the Councils to be more responsive to changes in market demand and other market factors. The information collected will be a key input to the three yearly Housing and Business Capacity that are also required by the NPSUDC.

2. Background

- 2.1. The National Policy Statement on Urban Development Capacity (NPSUDC) came into effect on 1 December 2016 and provides direction to local authorities to ensure sufficient and feasible urban development capacity is provided to support housing and business growth. Its emphasis is on understanding the demand for housing and business land and requires local authorities within a Medium or High Growth Area to ensure they are well-informed about urban development activity by monitoring property market indicators on a quarterly basis.
- 2.2. The Hastings Napier Urban Area as defined by Statistics New Zealand's classification of urban areas includes Napier City and the Hastings District, excluding the census area units of:
 - Waimarama
 - Tangoio
 - Sherenden Puketapu
 - Poukawa
 - Maraekakaho
 - Tutira
- 2.3. Figure 1 shows the boundary of the Napier Hastings Main Urban Area in relation to the census area units incorporated within it.

Figure 1 Napier-Hastings Urban Areas as defined by StatsNZ



- 2.5. The requirements of the NPSUDC on local authorities are progressively greater for urban areas based on classifications from low to medium to high growth. Urban Areas projected to experience population growth of between 5 and 10% between 2013 and 2023 are classified as medium growth areas and those over 10% as High Growth.
- 2.6. Statistics New Zealand completed its progressive update of population projections for urban areas in September 2017. For the Hastings Napier Extended Urban Area this concluded that the population growth forecast between 2013-2023 has risen to just over 5% meaning the area is now classified as 'medium growth'.
- 2.7. NPSUDC-UDC Policy PB6 requires Council's to monitor a range of indicators on a quarterly basis including:
 - a) prices and rents for housing, residential land and business land, by location and type; and the changes in these prices and rents over time;
 - b) the number of resource consents and building consents granted for urban development relative to the growth in population; and
 - c) indicators of housing affordability.
- 2.8. This report commences this process for the Napier-Hastings Extended Urban Area as required by the NPSUDC.

3. Working Together

- 3.1. The NPSUDC encourages local authorities that have been identified as medium or high growth to work together to implement the requirements of the NPSUDC. The Napier City Council, Hastings District Council and Hawke's Bay Regional Council worked together from 2009 to produce the Heretaunga Plains Urban Development Strategy 2010 and more recently to review the strategy in 2016-2017. Under the Strategy the three partner Councils have committed to regular joint monitoring, which now includes taking account of the requirements of the NPSUDC starting with the preparation of this report.
- 3.2. The monitoring and price efficiency indicators will be used, by the partner Councils to inform housing and business land capacity assessments which are required are to be completed every three years under the NPSUDC with the first one completed by 31 December 2018. The key outputs of these assessments, including estimates of remaining capacity and projected uptake rates, will be used in future Heretaunga Plains Urban Development Strategy Reviews (the next one commencing indicatively in 2021) and subsequently to prepare and schedule land rezoning and infrastructure provision through the regional and district plans, Long Term Plans and 30 Year Infrastructure Strategies.

4. About This Report

- 4.1. This is the first report of its kind for NPSUDC monitoring and reporting purposes. Consequently this report sets baseline data for existing time series across a range of variables on an annual basis to 2016 or December 2017, depending upon the time series data availability. For some series data is or will be available at three monthly intervals (i.e. quarterly) and a simpler reporting framework will be introduced to cover the intervening quarters between Calendar years. Some quarterly data will be reported as a two year rolling average to smooth out short term fluctuations, while still providing early indications of a change in market trends. These are included in this report for the period March (Q1) 2016 to December 2017 (Q8), based on data starting Q1 2014.
- 4.2. Due to the nature of the source data of the monitoring contained within this report some relates to data covering the two territorial areas separately, and/or in combination, while some relates to the Hastings- Napier Main Urban Area only. For simplicity, at this stage further breakdowns are not reported, but this will be reconsidered once the first housing and business capacity assessment under the NPSUDC framework has been completed in December 2018.
- 4.3. The format and content of this initial monitoring indicator report will be progressively refined over time. In many cases, trends will remain the same from quarter to quarter, and as such detailed commentary on the indicators will be provided on an annual basis, unless there is a notable change in an indicator.
- 4.4. **Table 1** overleaf sets out the indicators contained in this report, and Appendix 1 presents a map to illustrate the location of place names frequently mentioned in this report.

Table 1 Summary of Indicators Reported

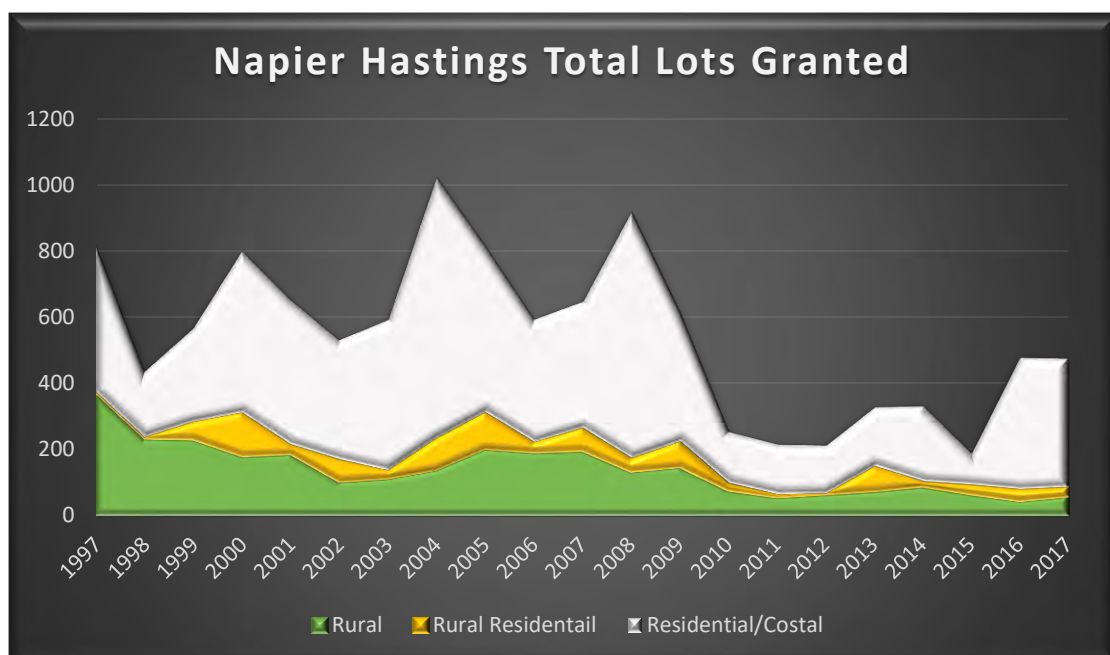
NPSUD C-Ref	Type	Topic	Figure or Table	Indicator	Updated
PB6 (b)	Residential	Land	Figure 2	Napier Hastings Total Lots Consented	Quarterly
PB6 (b)	Residential	Land	Figure 3	Napier Hastings Urban Lots Consented	Quarterly
PB6 (b)	Residential	Land	Table 2	Current land capacity & uptake	Quarterly
PB6 (b)	Residential	Land	Figure 4	Greenfield land Uptake (from March)	Quarterly
PB6 (b)	Residential	Land	Table 3	Current and Planned Capacity	Annual
PB6 (b)	Residential	Land	Figure 5	Rural Residential Supply and Demand	Annual
PB6 (a)	Residential	Land	Figure 6	Section Sales Volume	Quarterly
PB6 (a)	Residential	Land	Figure 7	Average Section Sales Value	Quarterly
PB6 (a)	Residential	Land	Figure 8	Price Cost Ratio Napier Hastings UA	Annual
PB6 (a)	Residential	Land	Figure 9	Price Cost Ratio regional benchmark	Annual
PB6 (a)	Residential	Land	Figure 10	Price Cost Ratio Peer Group Trend	Annual
PB6 (a)	Residential	Land	Figure 11	Average Land Value Trend	Annual
PB6 (a)	Residential	Land	Figure 12	Land Value % Percentage of Capital Value Peer Group Trend Comparison	Annual
PB6 (b)	Residential	Dwellings	Figure 13	New Dwelling Consents 2000-2017	Quarterly
PB6 (b)	Residential	Dwellings	Figure 14	Dwelling Consents by Location Type	Quarterly
PB6 (b)	Residential	Dwellings	Figure 15	New Dwelling Consents by Location	Quarterly
PB6 (b)	Residential	Dwellings	Figure 16	New Dwelling Consents by Typology	Quarterly
PB6 (b)	Residential	Dwellings	Figure 17	New Dwelling Consents v Household Growth	Annual
PB6 (a)	Residential	Dwellings	Figure 18	12 Month Rolling House Prices	Annual
PB6 (a)	Residential	Dwellings	Figure 19	Sales Activity and Prices Peer Group	Annual
PB6 (a)	Residential	Dwellings	Figure 20	Rolling Average Dwelling Sales Prices for Selected Locations	Annual
PB6 (a)	Residential	Dwellings	Figure 21	House Sales Volume and Prices	Quarterly
PB6 (a)	Residential	Dwellings	Figure 22	Rolling Average Weekly Dwelling Rents	Annual
PB6 (a)	Residential	Dwellings	Figure 23	Weekly Rental Monthly Movements	Quarterly
PB6 (a)	Residential	Dwellings	Figure 24	House Buyer Classification 2006-2017	Annual
PB6 (a)	Residential	Dwellings	Figure 25	Origin of Buyers Purchasing Property in Hawke's Bay	Annual
PB6 (c)	Residential	Affordability	Figure 26	Hawke's Bay Housing Affordability Index	Quarterly
PB6 (c)	Residential	Affordability	Table 4	Affordability Index Regional Comparison	Quarterly
PB6 (c)	Residential	Affordability	Figure 27	First Home Buyer Affordability Measure	Annually
PB6 (c)	Residential	Affordability	Figure 28	First Home Buyer Affordability Peer Group Comparison	Annually
PB6 (c)	Residential	Affordability	Figure 29	Share of Rent to Income Affordability Measure	Annually
PB6 (c)	Residential	Affordability	Figure 30	Share of Rent to Income Affordability Peer Group Comparison	Annually
PB6 (b)	Residential	Affordability	Figure 31	Rolling Average Building Commercial and Industrial Consent Values	Annually
PB6 (b)	Residential	Affordability	Figure 32	New Zealand Migration and Population Growth	Annually
PB6 (b)	Business	Building	Figure 33	Non Residential Floorspace Consented	Annually
PB6 (b)	Business	Building	Figure 34	Value of Non Residential Consents	Annually
PB6 (b)	Business	Building	Figure 35	Industrial and Commercial Floorspace Consented	Annually
PB6 (b)	Business	Building	Figure 36	Quarterly Commercial Industrial and Total Non-Residential Floorspace Consented	Quarterly
PB6 (a)	Business	Land-Buildings	Figure 37	Industrial vacancy rate	Annual
PB6 (a)	Business	Land-Buildings	Figure 38	Office vacancy rate	Annual
PB6 (a)	Business	Land-Buildings	Figure 39	Retail vacancy rate	Annual

- 4.5. In addition to the market indicators referred to in NPSUDC Policy PB6; Policy PB7 requires local authorities to use indicators of price efficiency in their land and development market. This is to help Councils understand how well the market is functioning, how planning may affect this, and when additional capacity might be needed.
- 4.6. MBIE has developed a number of price efficiency indicators one of which (the Price Cost ratio) are incorporated into this report. Two of the other three; Urban /Rural land value differential and Industrial Boundary value differentials are based on valuation information which is updated every three years and requires considerable cross checking and interpretation. Accordingly it is proposed to report on these through the three yearly housing and business capacity assessments as will the remaining indicator, the ownership concentration index, which is considered to be of limited value in the regional context, particularly on an annual basis.

5. Residential Land Capacity

- 5.1. Overall residential land capacity comprises greenfield residential areas, infill development potential, brownfields developments and other dispersed types of living environments such as coastal settlements, marae based communities and rural residential/lifestyle living.
- 5.2. **Figure 2** shows the estimated number of lots for which consent was granted over the least 20 years. Spikes in 2000, 2004 and 2008 correspond with the opening up of new greenfield growth areas at Arataki, Parklands and Lyndhurst Stage 1, with a significant slow down post the global financial crisis. The spike in 2015-2016 largely due to the Napier City Council subdivision at Parklands and in Hastings in 2017 with the uplifting of the deferred zoning at Lyndhurst Stage 2.

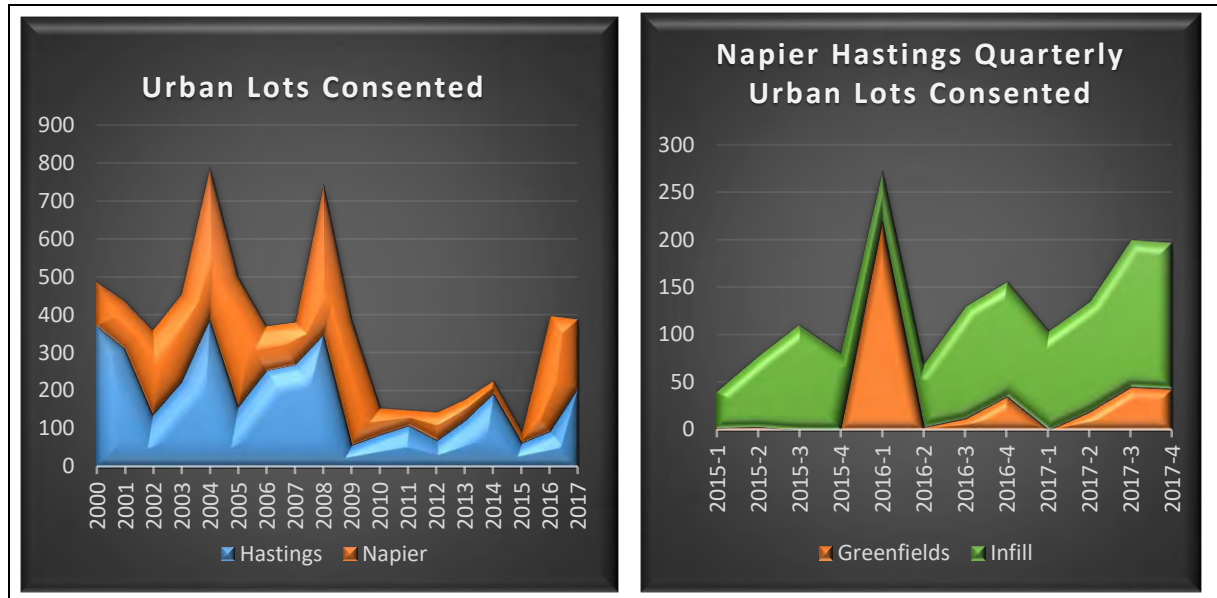
Figure 2: Napier Hastings Total Lots Granted 1997-2017



(Source NCC and HDC)

- 5.3. **Figure 3** shows the residential lots created broken down by Napier and Hastings and quarterly for infill and greenfields. Apart from the large Parklands consent in the first quarter of 2016 most of the subdivision activity has been in the form of infill, but with greenfields starting to pick up in the last two quarters of last year. By its nature however, greenfield subdivision tends to occur in large numbers at irregular intervals.

Figure 3: Napier Hastings Urban Lots Consented



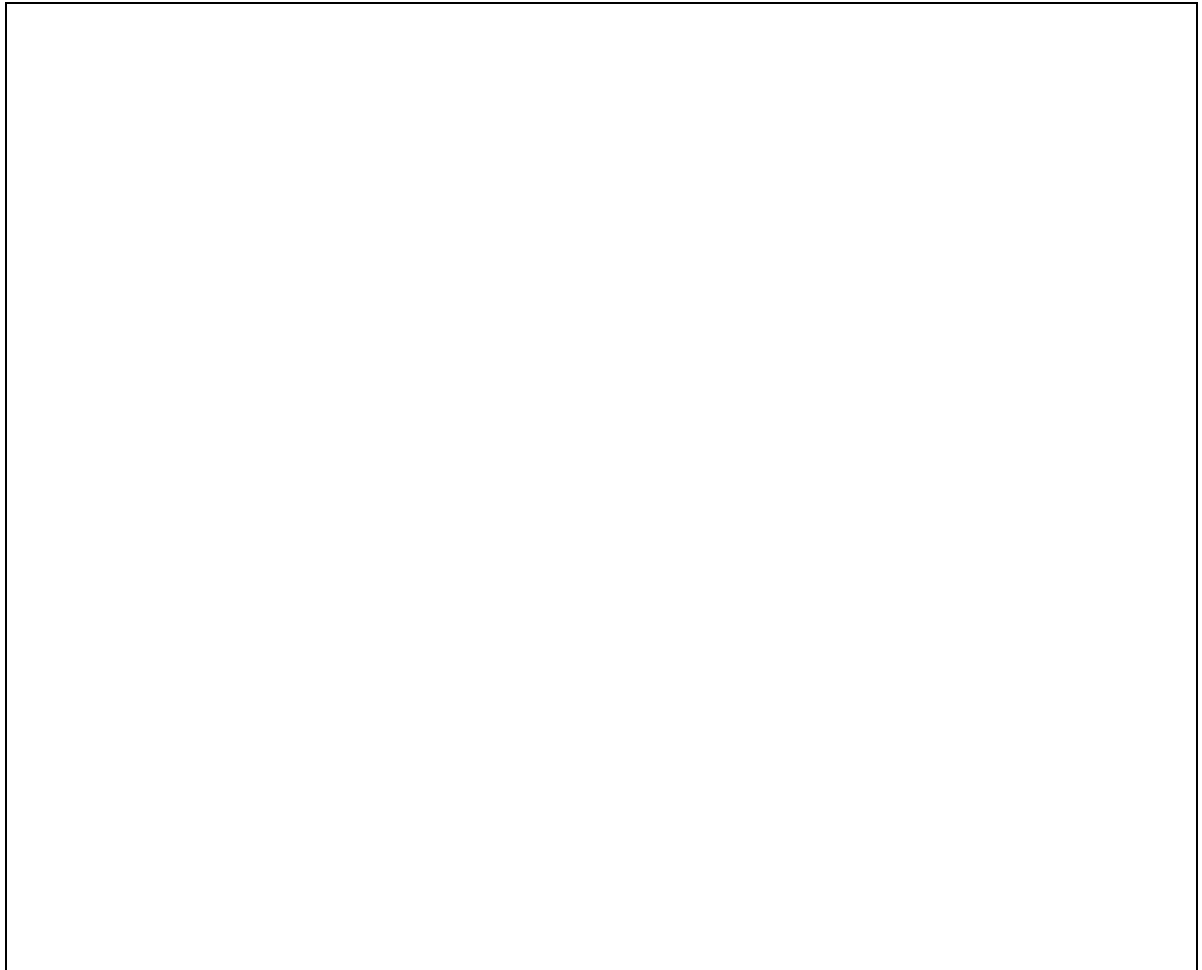
- 5.4. **Table 2** sets out the remaining vacant residential lot capacity within greenfield areas as the end of December 2017 less building consents having been issued over the last quarter of last year. It estimates the number of subdivided lots and the estimated capacity of larger zoned areas serviced with bulk infrastructure that have yet to be subdivided. Of the latter 257 lots in Napier and 92 in Hastings have been granted resource consents, but physical construction has not yet been completed.

Table 2: Residential Capacity and Quarterly Uptake to December 2017

YTD 31/12/2017	Unbuilt Lot Capacity	New Lots Created Last Quarter	Building Consents Granted Last Quarter	Balance lots Unbuilt	Lots yet to be Created	Total Remaining Capacity
Area	30-Oct					
Arataki	12	0	2	10	28	38
Lyndhurst Stage 1	25	0	4	21	6	27
Lyndhurst Lifestyle Village	35	0	6	29	0	29
Lyndhurst Stage 2	3	0	0	3	267	270
Northwood	10	0	1	9	79	88
Parklands	12	0	4	8	181	189
Te Awa	10	34	22	22	936	958
Total	107	34	39	102	1497	1599

- 5.5. **Figure 4** shows a placeholder for the quarterly uptake rate for these greenfields growth areas from March 2018.

Figure 4: Placeholder (Greenfield land Uptake Graph from March 2018)



- 5.6. As well as these zoned and serviced areas **Table 3** overleaf also shows future capacity planned to be provided through rezoning and infrastructure provision over the next two years plus the total remaining capacity of land identified in HPUDS for future development.
- 5.7. HPUDS estimates a greenfield residential uptake rate of approximately 270 households per annum over the next ten years, giving a current supply estimate of 6-7 years and a further 5 years being provided within two years' time. While there has been and still is a pinch point in current capacity, current and planned developments will rectify this situation from around the middle of the year onwards. Falling household growth rates mean the balance capacity in HPUDS should be sufficient to meet demand until at least 2045 if the strategy's progressively increasing intensification targets are met and planned supply is delivered on time to meet actual growth demands.

Table 3: Current and Planned Residential Section Capacity

Areas	Available Capacity
Currently Zoned and Developing	
Arataki	38
Lyndhurst	56
Northwood	88
Lyndhurst 2	270
Parklands	189*
Te Awa	958**
Park Island	170***
Total	1769
Planned Over Next Two Years	
Iona (V4)	210
Howard Street (V3)	260
Parklands Extension (PC 11)	280
Western Hills (The Mission) (PC12)	550
Total	1300
Remaining HPUDS Areas	
Riverbend	350
The Loop	250
Bay View	90
Lyndhurst Extension	230
Haumoana/Te Awanga	130
Arataki/Brookvale	220
Havelock Hills	160
Kaiapo Road	350
Copeland/Murdoch	230
Irongate	270
Brookvale Romanes	575
Total	2855
Grand Total	5924

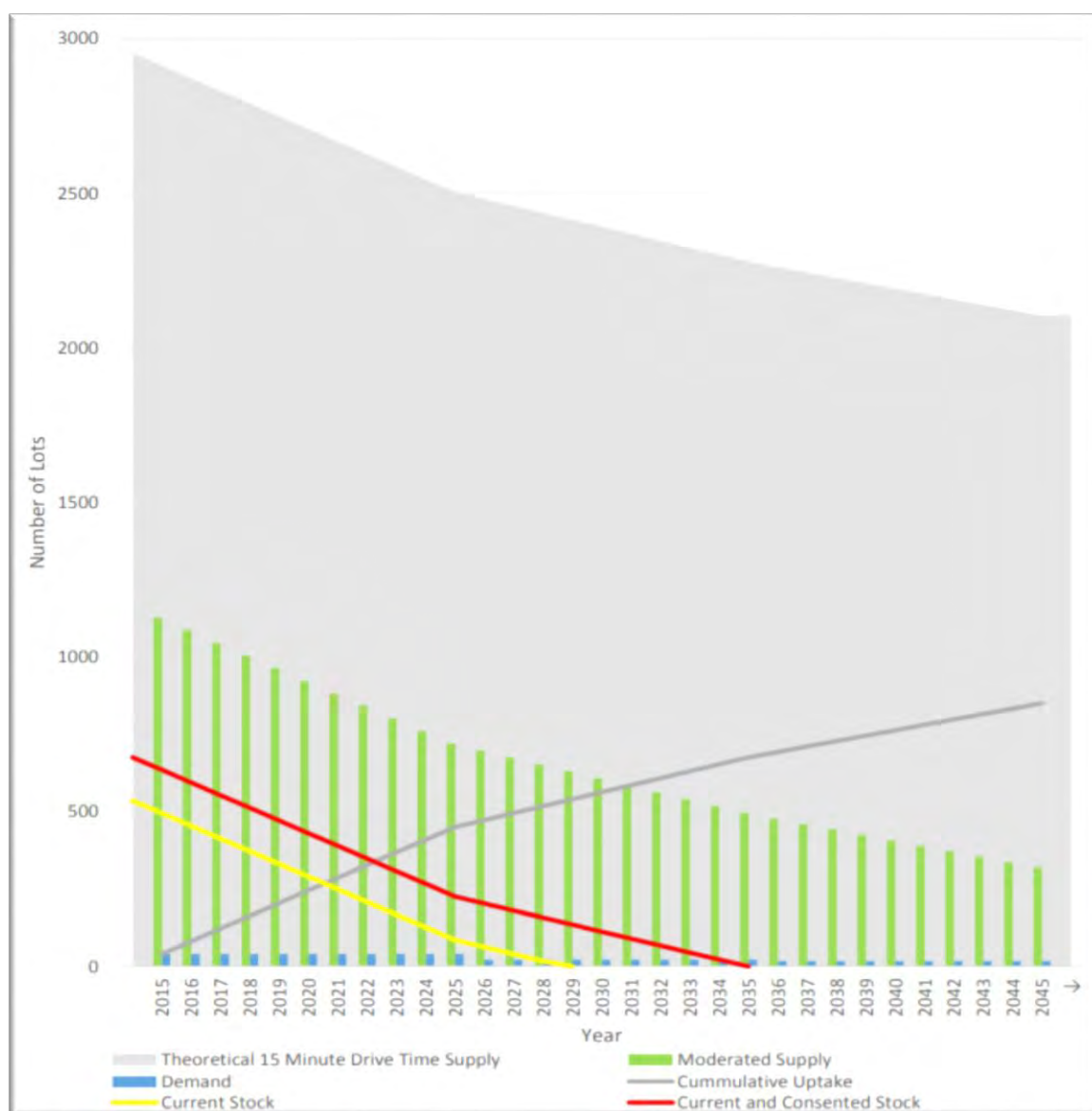
**All consented*

***68 sites have been consented, the balance is expected to occur in stages when developers are ready to pay the financial contributions/install infrastructure.*

****Subject to Treaty Settlement Claims*

- 5.8. As part of the 2017 HPUDS Review assessments were undertaken in 2016 of infill capacity and current and potential rural lifestyle sites. On the information available it was concluded that sufficient physical and economic (in terms of financially viable infill and intensification) potential existed in both cities to meet the HPUDS targets over time, but that this should be monitored on a regular basis.
- 5.9. Similarly the “Review of Rural Residential/Lifestyle Sites - Cheal Consultants 17 June 2017” demonstrated that there was sufficient supply to accommodate demand over the period 2015 to 2030, however supply, and the surplus of supply over the following 15 year period will be influenced by the rate of further subdivision, as depicted in **Figure 5** below:

Figure 5: Rural Lifestyle Capacity 15 - Minute Drive Time Supply and Demand Analysis

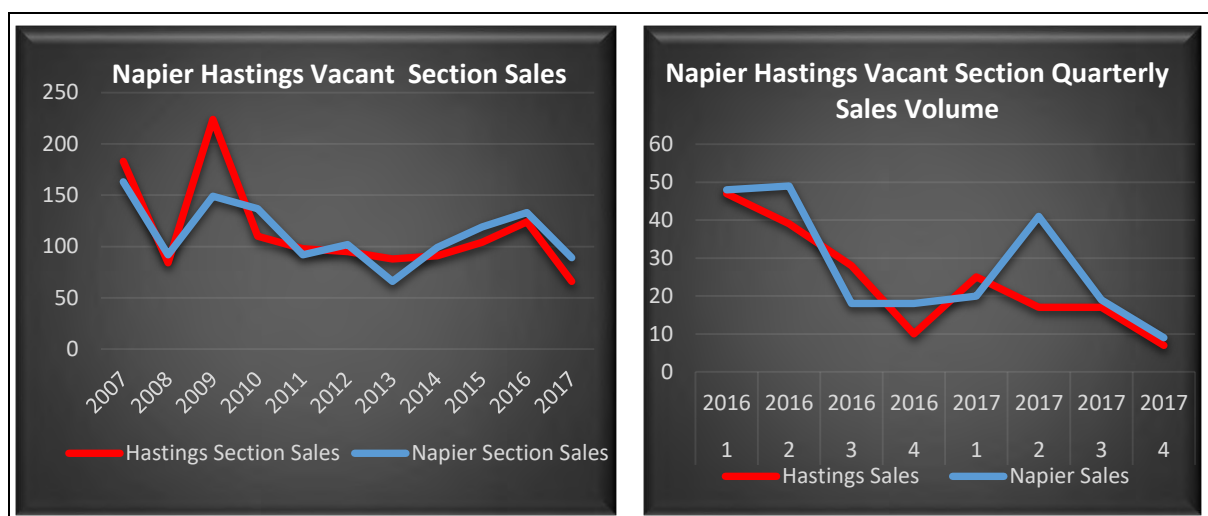


- 5.10. While building activity is monitored, at present the monitoring systems of remaining capacity for infill and rural lifestyle land are not sufficiently developed to record uptake spatially on a quarterly basis. However, this is a work in progress which is expected to be completed before the end of the calendar year.

6. Land Prices /Sales

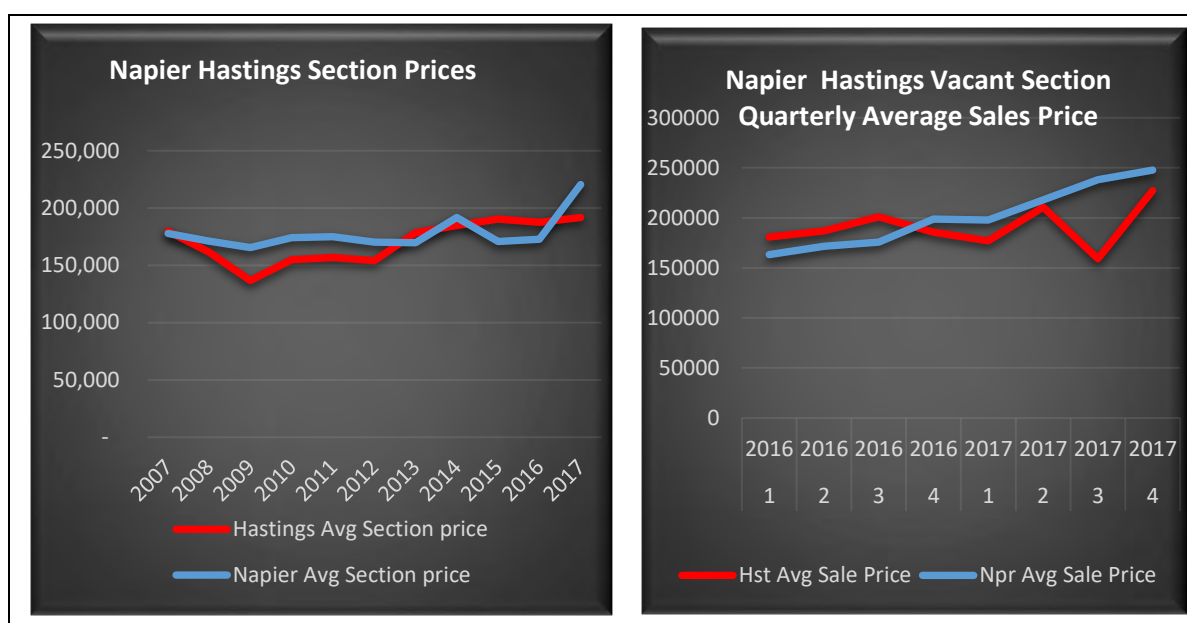
- 6.1. **Figures 6 and 7** show Hastings and Napier quarterly rolling average vacant section sales and average sales prices over the last 2 years. This covers both infill and traditional greenfields sites. Note the third and fourth quarter of 2017 may have some degree of under reporting due to slow sales notifications.

Figure 6: Napier and Hastings Vacant Residential, Annual and Quarterly Section Sales Volume



(Source Logan Stone Valuers)

Figure 7: Napier and Hastings Vacant Residential, Annual and Quarterly Average Section Sales Prices

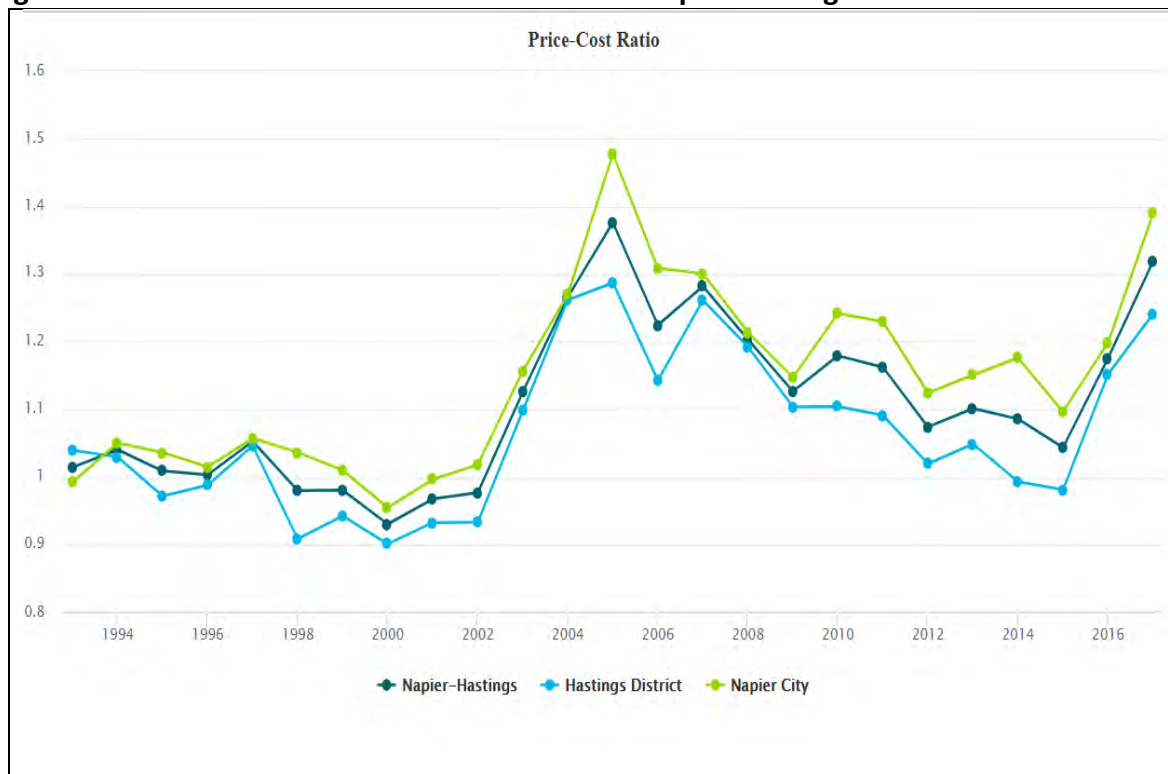


(Source Logan Stone Valuers)

- 6.2. The similarity in the data between Hastings and Napier does suggest a strong overlap between the two urban markets and a continuation of twin city development on the Heretaunga Plains as promoted in HPUDS to give diversity of choice. The average sales price drop in Hastings in Q3 2017 relative to Napier, while the sales volume remains similar, is likely to be due to an increasing proportion of infill sales (traditionally lower priced) being traded in Hastings due to a short term greenfield supply shortage, rather than a reduction in pricing across the board. This is reinforced by anecdotal evidence of rising greenfield section prices in Napier and in other cities, including the limited sales that have occurred in Hastings.

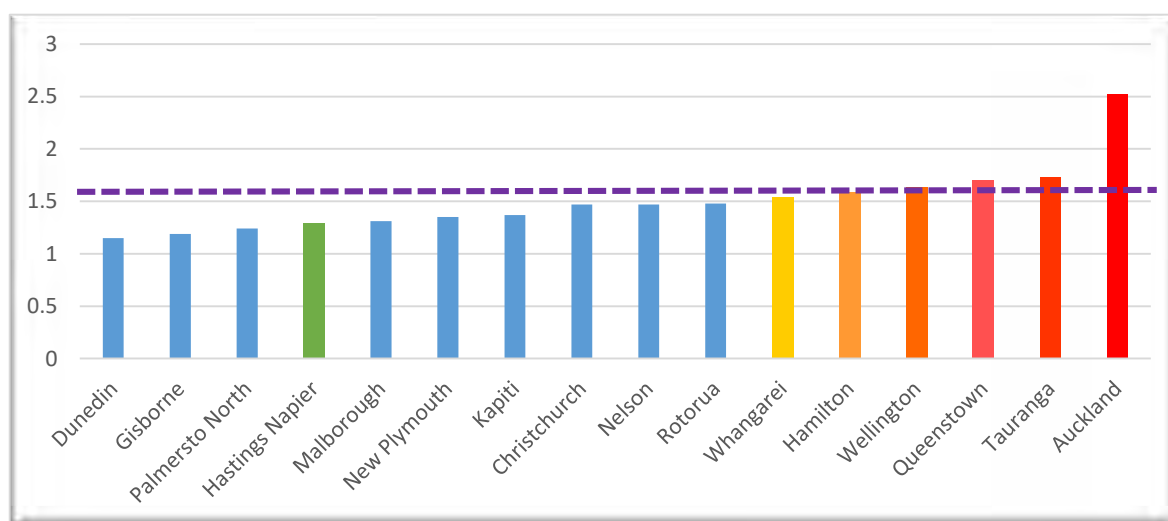
- 6.3. **Figure 8** shows MBIE's price cost ratio for the Napier Hastings Urban Area and for Napier and Hastings separately, while **Figure 9** shows the 2017 ratio alongside other New Zealand Urban Areas. This is an indicator of whether a shortage of residential land is impacting on general house prices. Generally an index of less than 1.5 would suggest that is not the case, while above 1.5 would suggest the opposite.

Figure 8: Price Cost Ratio 1993-2017 Napier Hastings Urban Area



(Source MBIE Dashboard)

Figure 9: Price Cost Ratio for New Zealand Urban Areas 2017



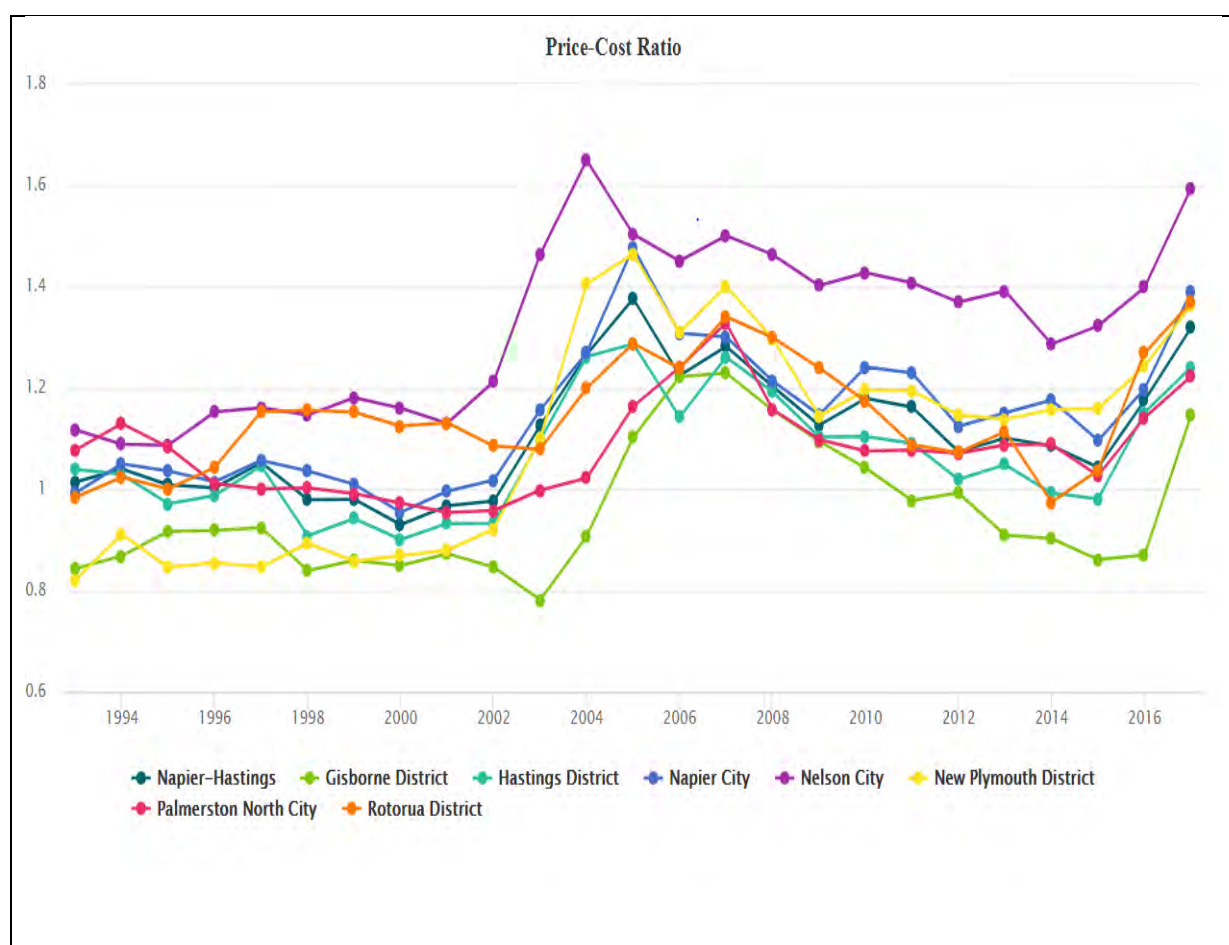
(Source MBIE Dashboard)

- 6.4. As can be seen land supply does not seem to have been a major driver of house price inflation in the region in the past. While the ratio remains under 1.5 it has tracked upwards from 2016 which would coincide with a pinch point in greenfield land supply in Hastings.

Nevertheless the 2017 ratio remains one of the lowest in the country and as noted above, current and programmed development will rectify this and the price cost ratio should reflect this over the next year. The last spike in 2005 however coincided with a relatively unconstrained greenfield land market.

- 6.5. In addition a check with other peer group urban areas price ratio trends shown in **Figure 10** indicates a similar upwards trend across the board at the same time, suggesting factors beyond Hawkes Bay and other than localised land supply is having an impact on the measure.

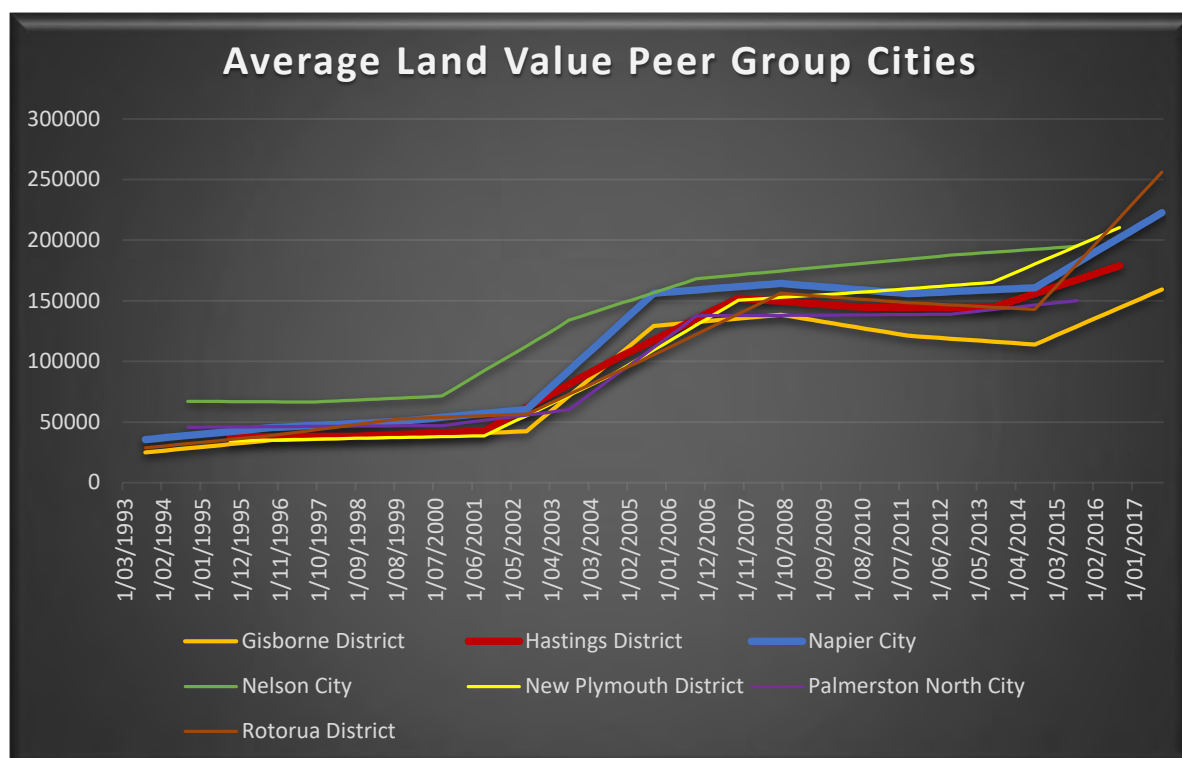
Figure 10: Price Cost ratio Trend for Selected Urban Areas



(Source MBIE Dashboard)

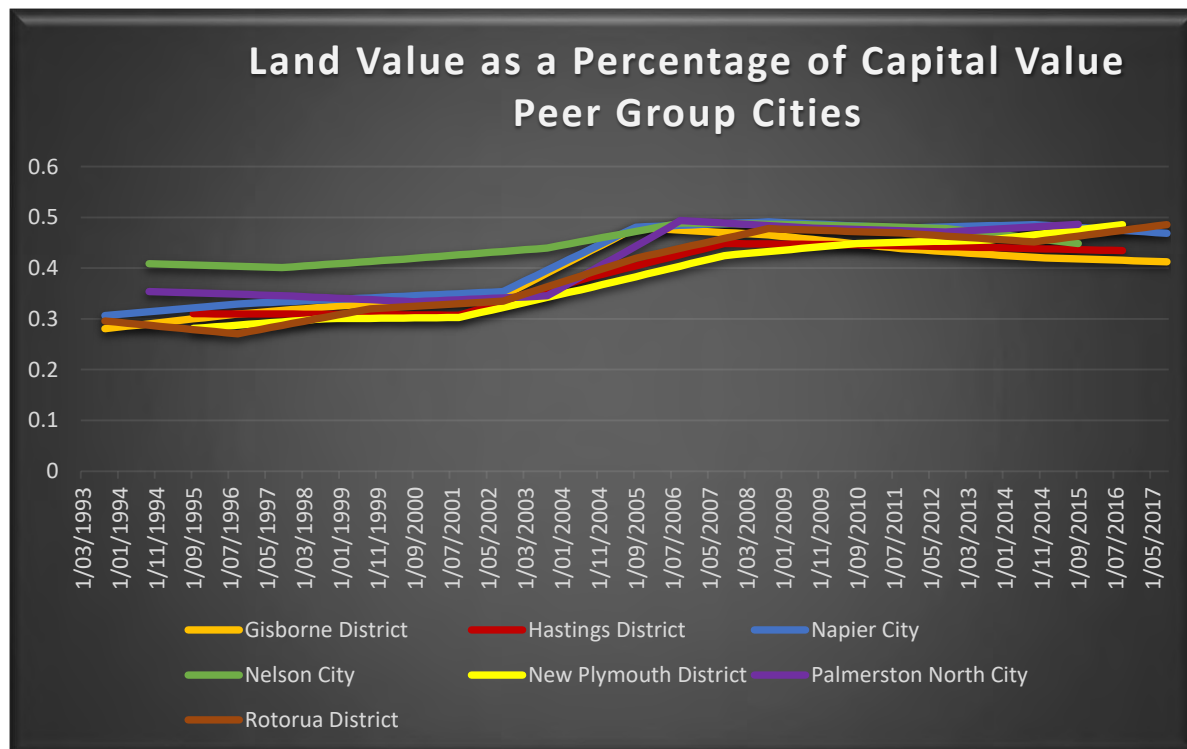
- 6.6. As a further check **Figure 11** tracks the average value of existing dwellings (based on the three yearly valuation) for Hastings and Napier. This shows some movement at the October 2016 valuation for Hastings, but not Napier at its 2014 revaluation. Land value as a percentage of capital value for the same peer group shown in **Figure 12** suggests land prices are merely keeping pace with house prices and possibly being dragged upwards by that part of the market, rather than driving them.

Figure 11: Average Land Value of Dwellings 1994-2016



(Source MBIE Dashboard)

Figure 12: Land Value as a Percentage of Capital Value of Dwellings

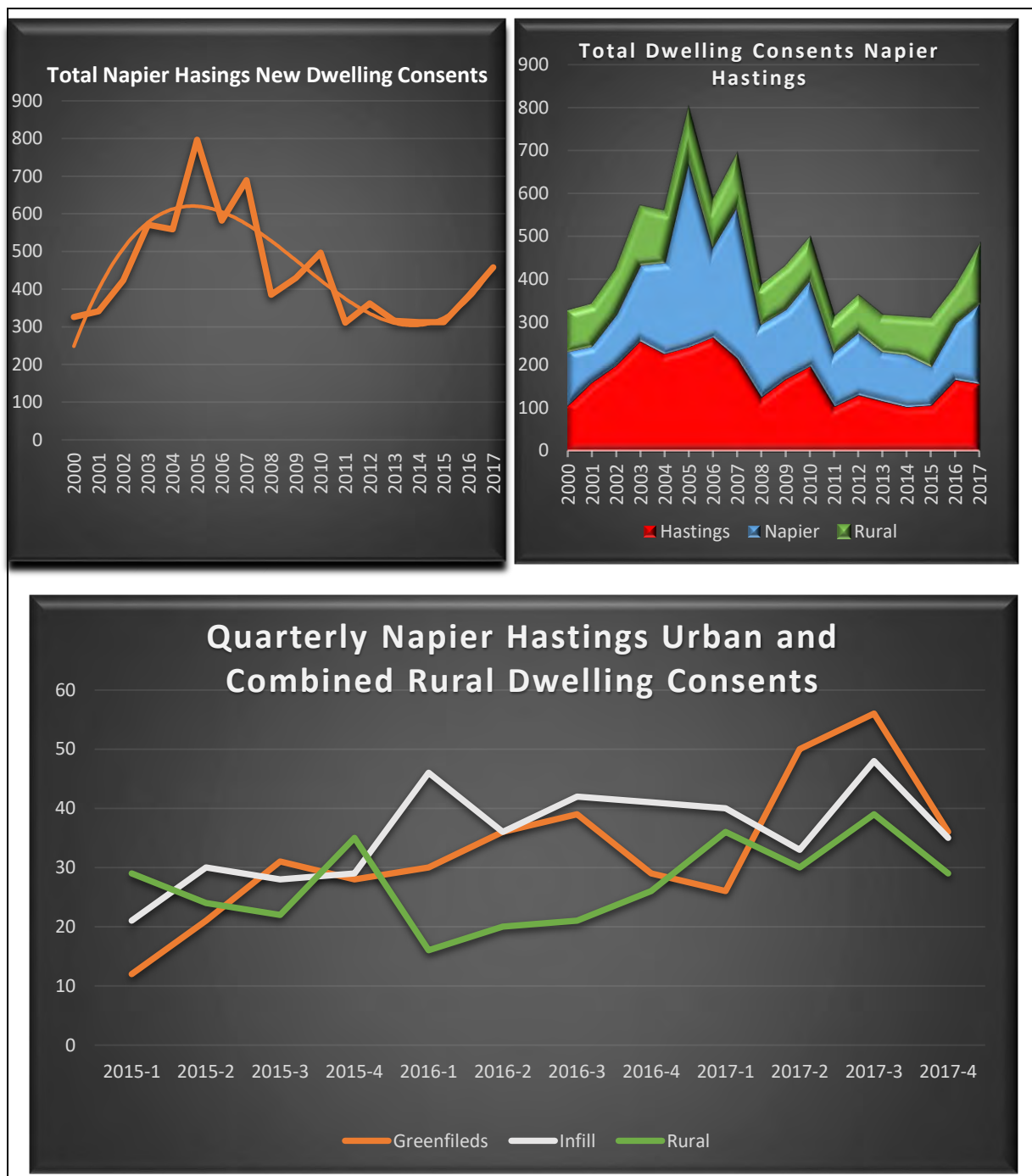


(Source MBIE Dashboard)

7. Building Activity

- 7.1. Building consent data in **Figure 13** below shows a pick-up in new urban dwelling construction from around the beginning to middle of 2016 in both Hastings and Napier after a slow period following the GFC, with rural/lifestyle development showing an even more significant rise. The last quarter of 2017 however, potentially signals a slower period, but a few more quarters will need to pass before a trend can be determined with any confidence.

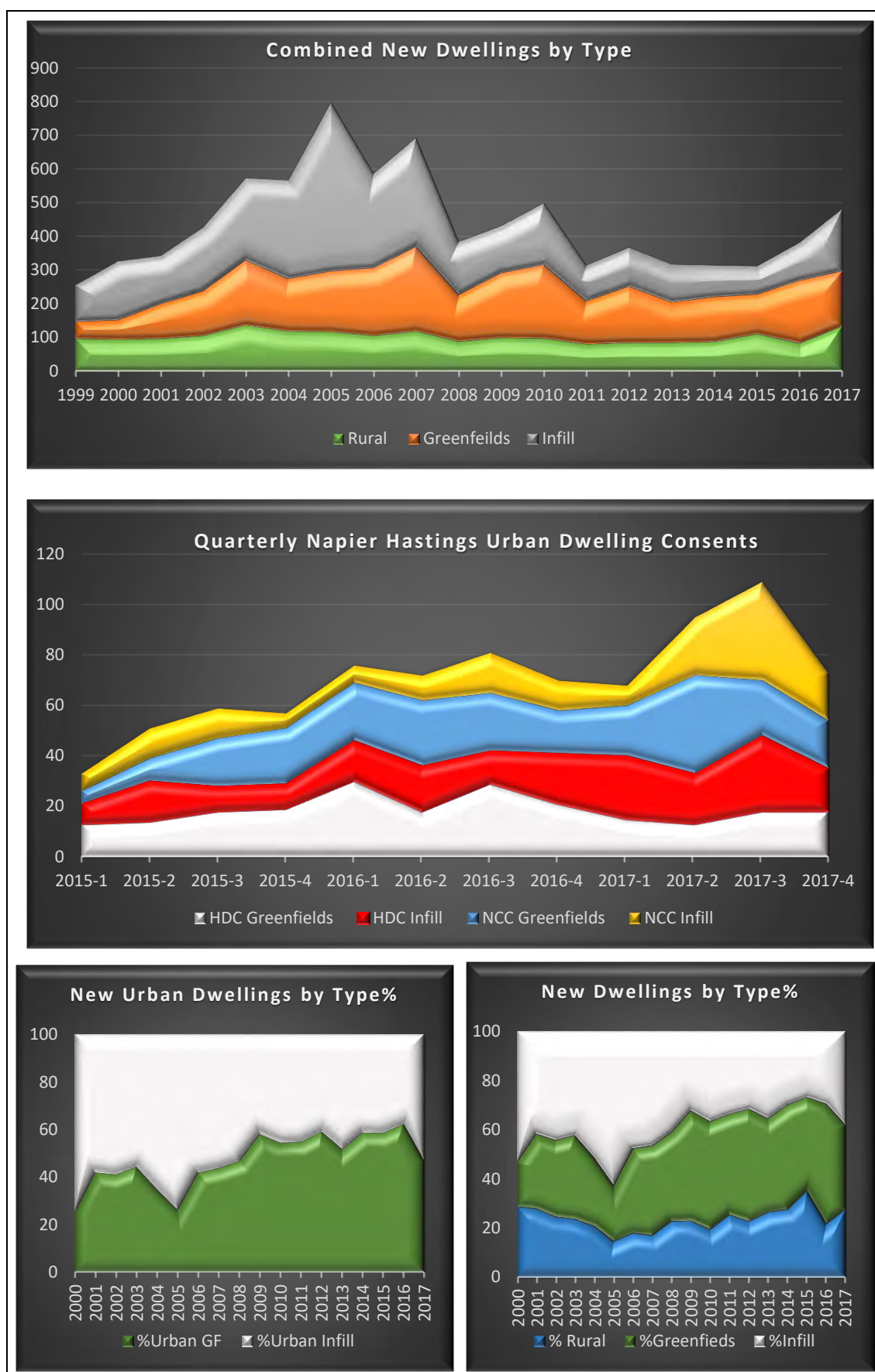
Figure 13: Napier Hastings New Dwelling Consents 2000-2017



(Source HDC and NCC)

- 7.2. **Figure 14** below tracks the same data by dwelling type again showing the rural/lifestyle upswing in 2017, but breaking down the urban component into infill and greenfield developments.

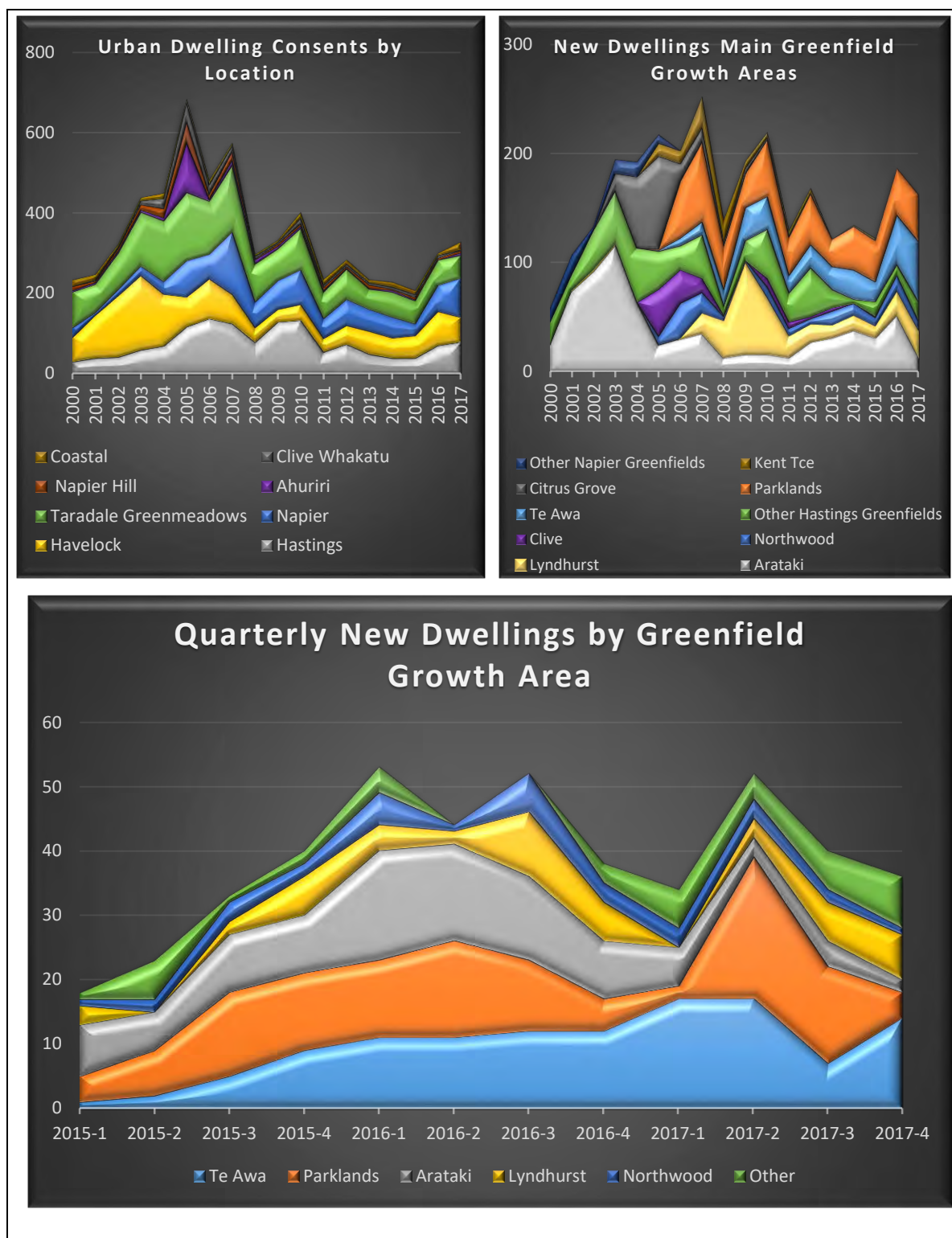
Figure 14: Napier Hastings New Dwelling Consents by Location Type



(Source HDC and NCC)

- 7.3. Notably there was a large amount of infill as well as greenfield development during the last property boom, but no equivalent temporary upswing in 2009-2010 to that evident for greenfield development and greenfield development has dominated urban development since then. The spike in infill in 2005 was largely due to a spate of apartment building in Ahuriri at that time.
- 7.4. The signs of a resurgence in infill starting to emerge in 2017 are due to a few larger developments in the third quarter of 2017 particularly in Napier as land within the urban area with long standing market gardens finally were developed for residential use.
- 7.5. A pinch point in greenfield supply is evident in the reduced greenfield development rates in Hastings over the last quarter of 2016 and most of 2017, but slowly improving section availability is starting to be reflected in slight increases toward the end of 2017. A fall in greenfield development in the last quarter of 2017 in Napier is likely due to a temporary scarcity of sections due to a major developer releasing a larger number of sections earlier in the year to respond to market demands at the time.
- 7.6. **Figure 15** below shows a diversity of choice in suburban developments and greenfield choices from around 2003, with the post GFC greenfield bump mentioned earlier clearly attributed to a surge in development in Lyndhurst and to a lesser extent Parklands.
- 7.7. A pinch point in greenfield supply in Hastings with Arataki nearing completion, means nearly half of greenfield development since the beginning of 2016 has been in the Napier growth areas of Te Awa and Parklands, but with short term supply constraints evident at Parklands at the end of 2016 and 2017. The early 2000's were characterised by a few greenfields growth areas. This compares with greater diversity of choice from round 2005, with this serving similar demand from around 2010.
- 7.8. While short to medium greenfield section supply issues have started to affected greenfield building rates, this has been offset by increased infill and rural/lifestyle development and a rebalancing of the greenfield infill mix toward that prevalent pre-GFC (% graphs in Figure 12) as those options become financially more attractive by comparison.

Figure 15: Napier Hastings New Dwelling Consents 2000-2017 by Location



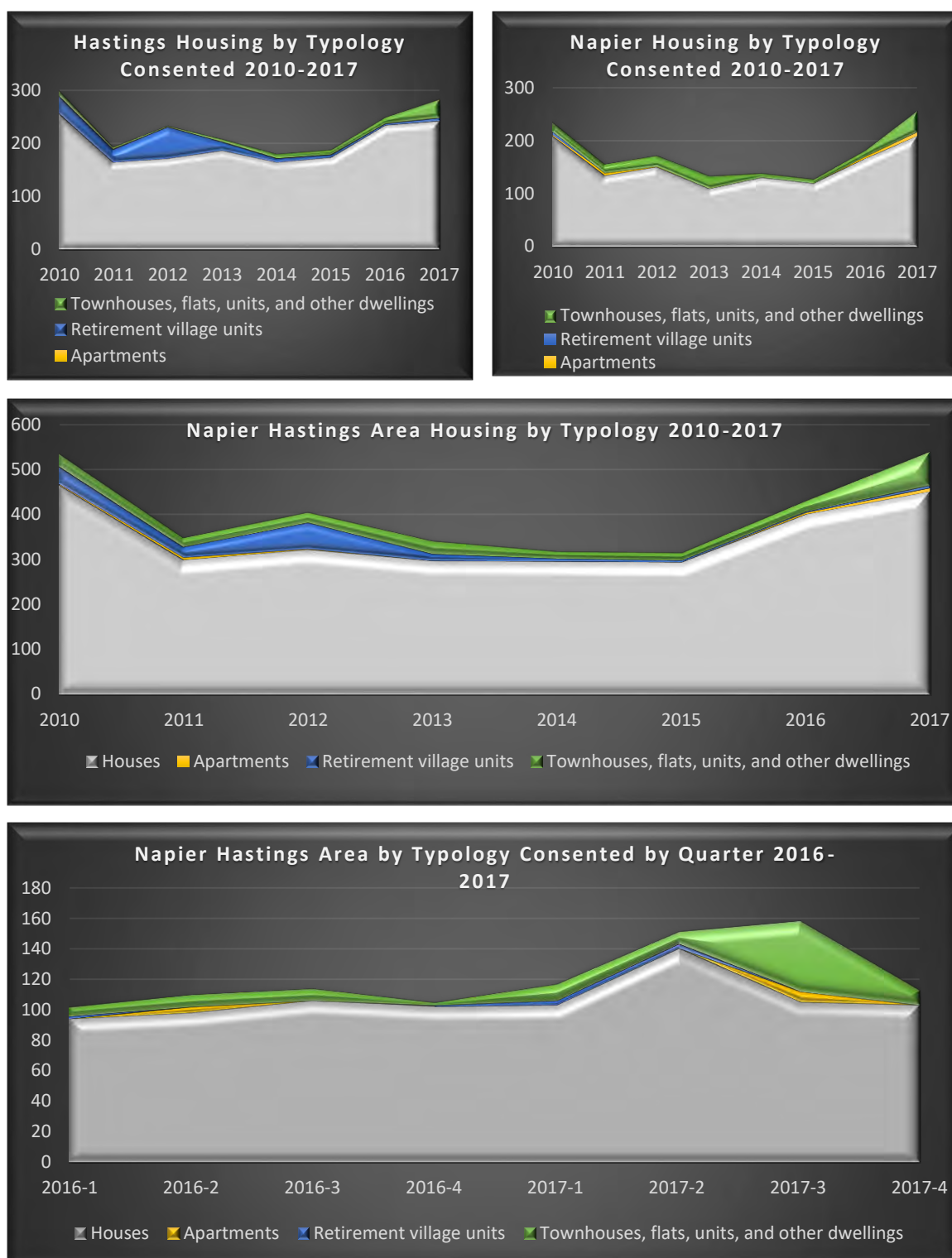
(Source HDC and NCC)

- 7.9. **Figure 16** looks at housing typologies built over the past few decades. These are based on NZStats classifications and reported through the NZStats by Territorial Authorities as part of the building consents process. These show that while infill is a significant part of the housing market, this tends to be in the form of detached dwellings rather than smaller footprint townhouse and semi-detached formats popular in the 1980s and 1990s. There is however, some renewed sign of interest in these formats or modern variants (such as the Frimley

Lifestyle Village) of them in 2017, possibly due to more market support for them as affordable dwellings.

- 7.10. The quarterly figures however, again suggest that this may be the result of a few larger developments in the third quarter of 2017, rather than a general trend. The popularity of licence to occupy retirement village housing is also clearly evident in a spike Hastings in 2012 associated with the Summerset in the Orchards development in Ada Street.

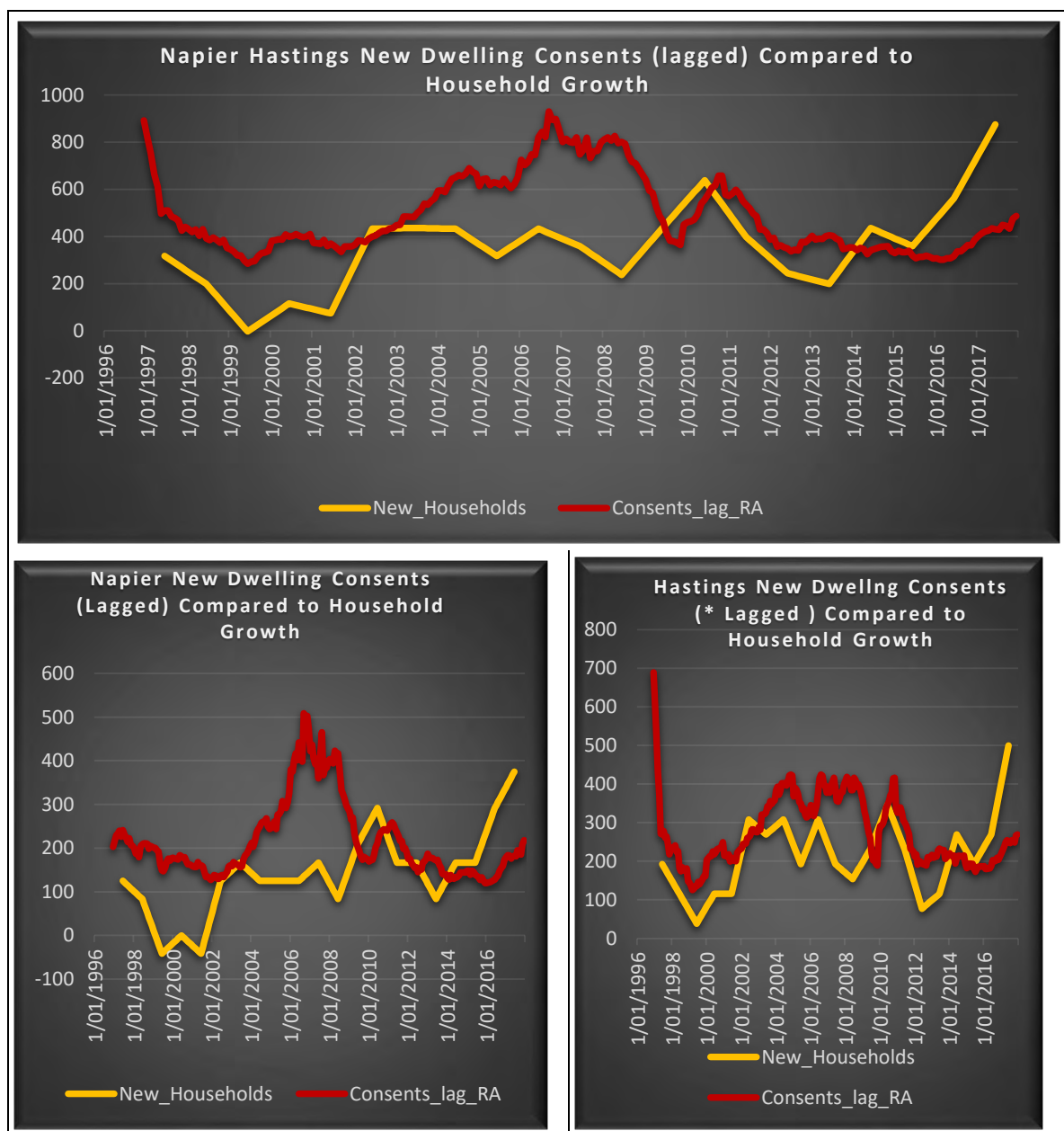
Figure 16: Napier Hastings New Dwelling Consents 2000-2017 by Housing Typology



(Source StatsNZ)

- 7.11. **Figure 17** tracks new dwelling consents lagged by six months to approximate completions against new household growth. This is a measure of whether house building is keeping pace with demand by new households over time (as opposed to more variable market influences such as interest rates, lending restrictions and income rates).

Figure 17: Napier Hastings New Dwelling Consents Compared to Household Growth



(Source MBIE Dashboard)

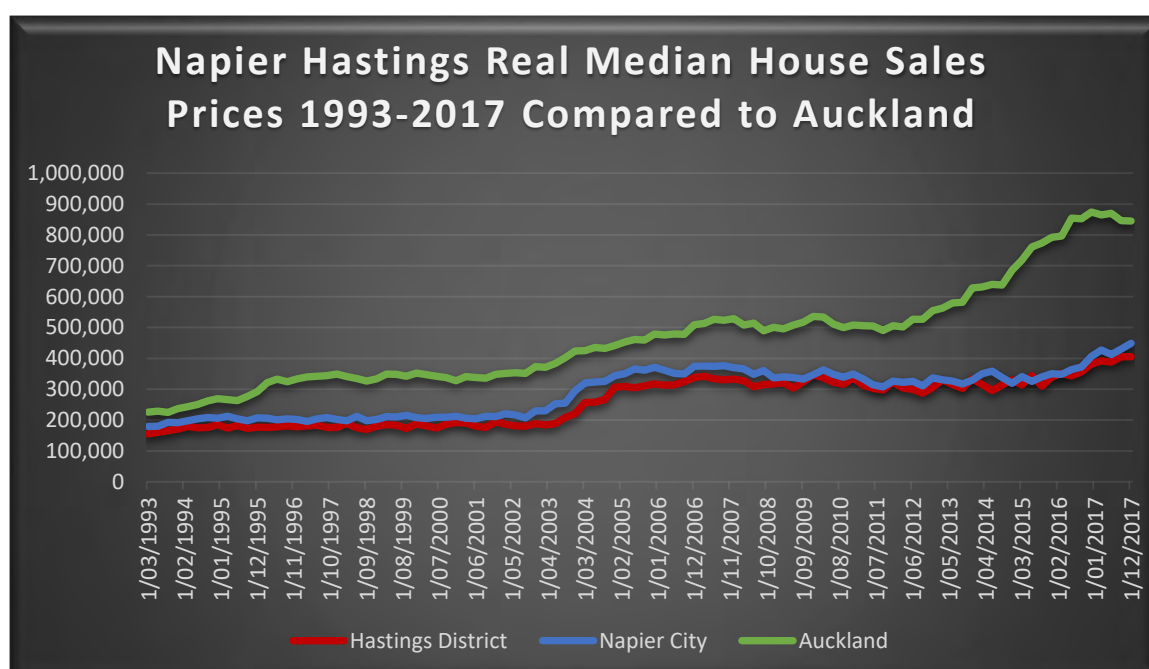
- 7.12. The graphs show that for both Hastings and Napier (and for the most part the rest of New Zealand outside of Auckland show a similar pattern), over the last 14 years from 2002, new house building has outstripped household growth to 2009 and kept pace to 2016. However, from 2016 household growth has and is expected to rise significantly off the back of record in-migration from overseas and/or anecdotally from displacement of buyers from other parts of the country experiencing crippling house price rises.

- 7.13. In both cases it appears that from 2002 a backlog of under provision from around the mid 1990's was part of the reason for the high rate of construction as the country came out of a period of high inflation and interests rates. That appears to have been more marked in Napier, largely because a shortage of greenfield land supply, while Hastings at least had some areas available around Havelock North and to a lesser extent Flaxmere.

8. House Prices /Sales Activity

- 8.1. **Figure 18** below indicates that house price inflation between Hastings and Napier has been relatively similar overtime, but with the Napier experiencing slightly higher median prices, possibly due to its seaside proximity. House price inflation has been relatively subdued by comparison with the "headline" Auckland situation, with prices being relatively stable following the GFC following the last property cycle until 2016, mirroring the pattern for vacant land sales and building activity.

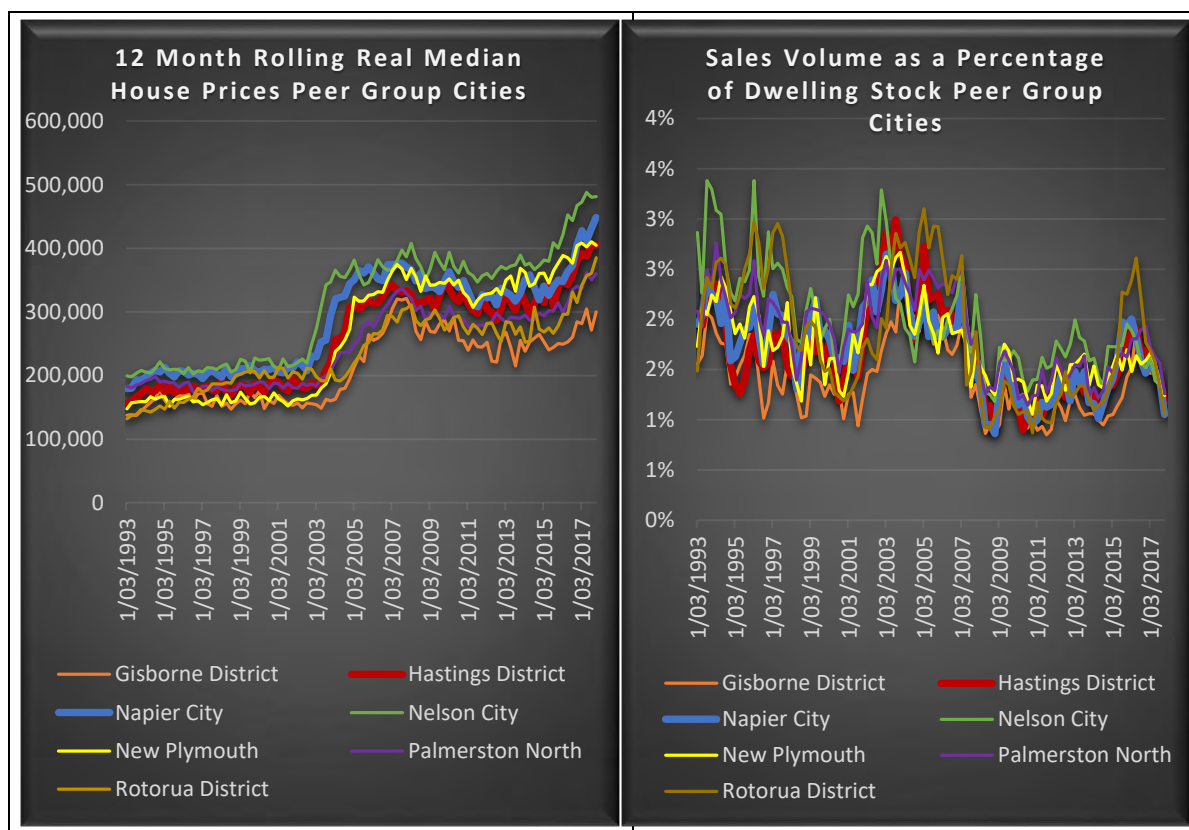
Figure 18: Napier Hastings 12 Month Rolling House Prices Compared with Auckland



(Source MBIE Dashboard)

- 8.2. **Figure 19** shows the same trends were evident with the peer group cities in terms of both pricing and sales activity, again indicating macro market forces at play rather than local land supply issues. If land supply issues nationally are affecting sales prices this may be a reflection of market forces causing rapid upswings in demand unrelated to underlying household growth and/or immigration policy that the physical/consenting process of subdivision and land development cannot keep up with. Interesting residential property turnover was as high in the early mid 1990's as the last property cycle despite very interest rates, and a recessionary economy.

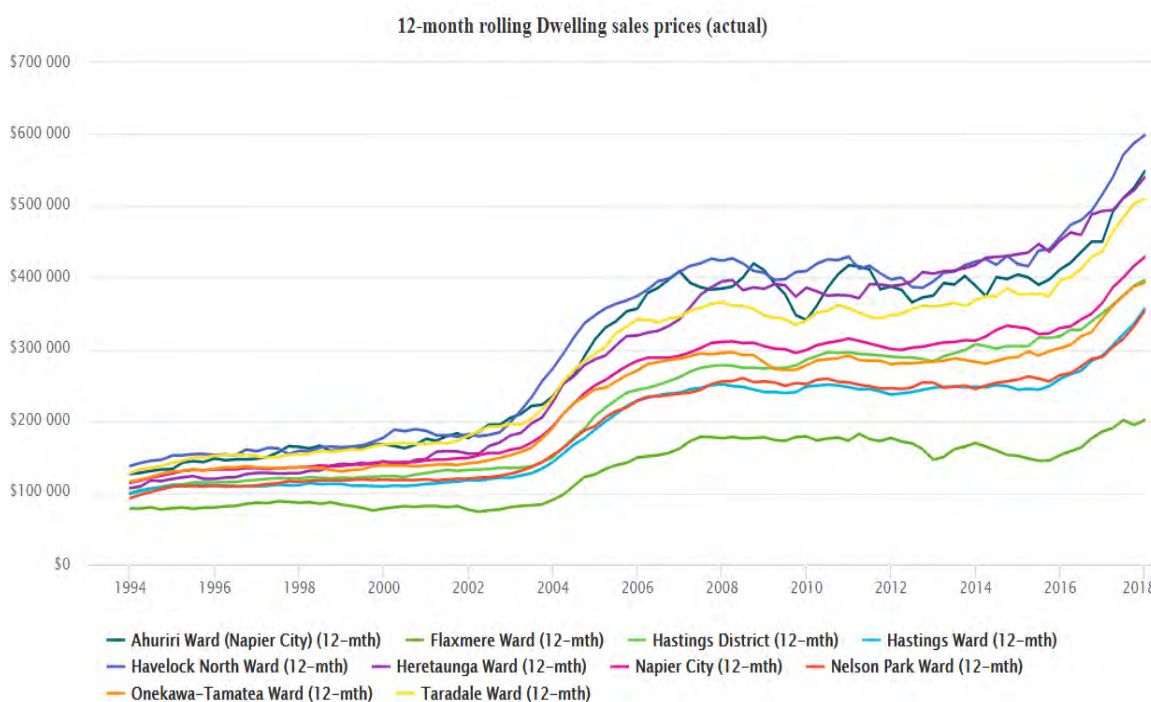
Figure 19: Napier Hastings Sales Activity and Prices Compared to Peer Group 1994-2016



(Source MBIE Dashboard)

- 8.3. **Figure 20** below shows the average house price by Local Authority ward. By and large the ward prices have tracked a similar pattern retaining their relativities. This tends to suggest that a shortage of vacant residential land in any particular area is not affecting existing house prices in those areas.

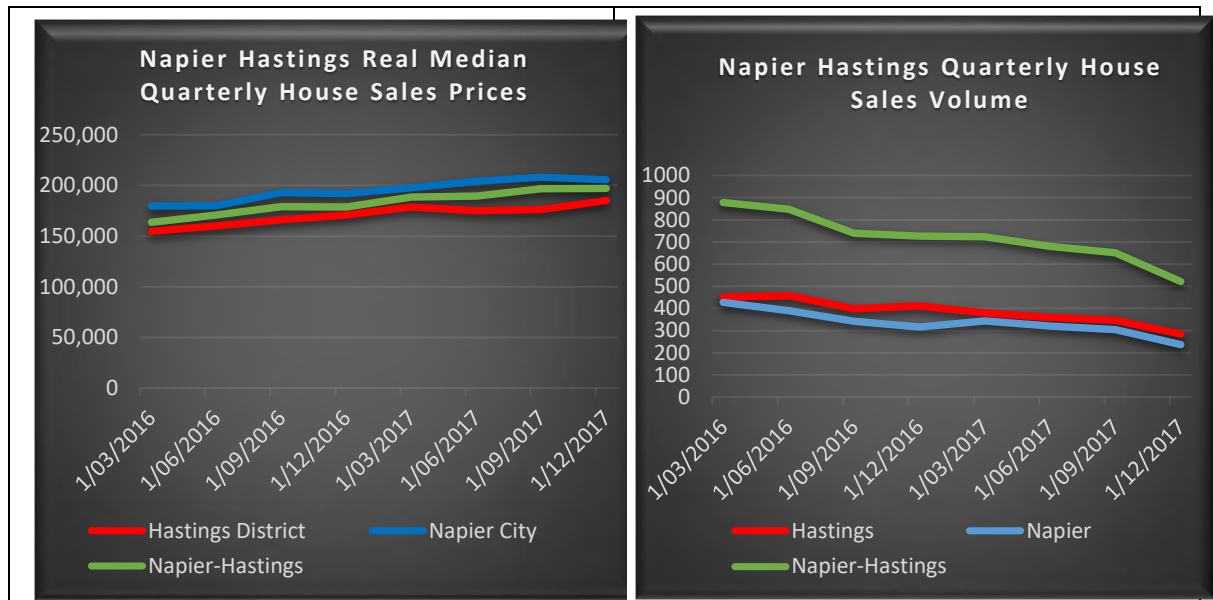
Figure 20: 12 Month Rolling Dwelling Sales Prices for Selected Locations



(Source MBIE Dashboard)

- 8.4. **Figure 21** below shows the median sales price and sales volume for Napier and Hastings per quarter for the past two years, showing a reduction in sales volume accompanied by a steady rise in prices.

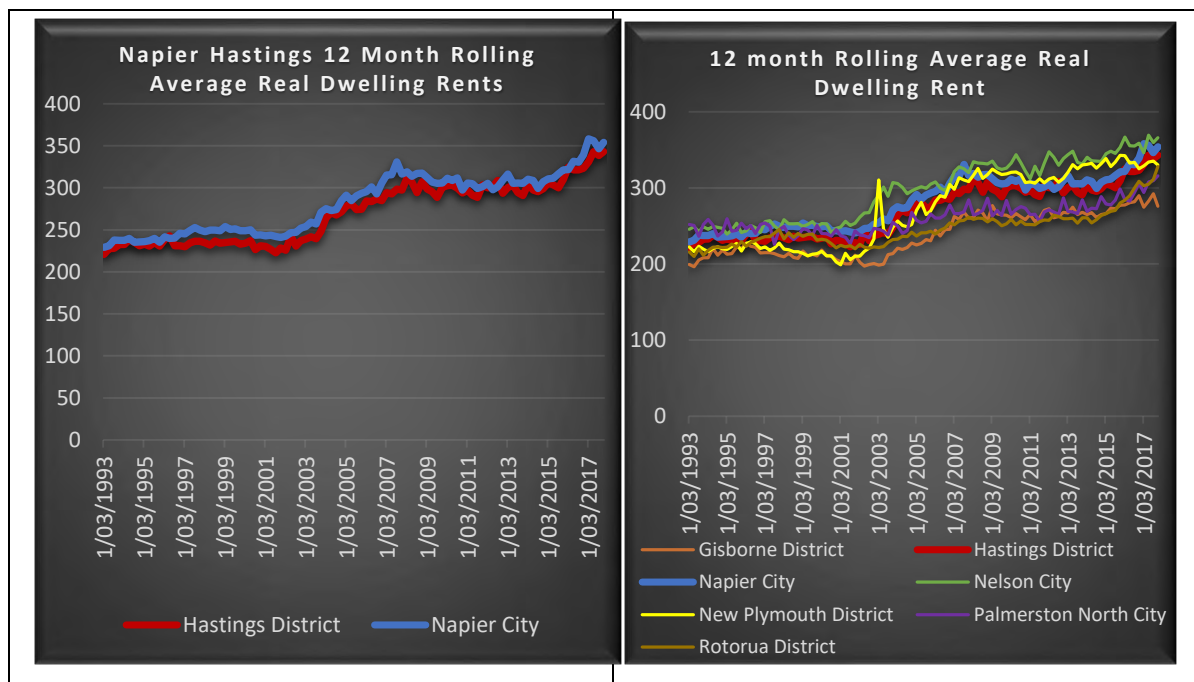
Figure 21: Napier Hastings Quarterly House Sales Volume and Prices



(Source MBIE)

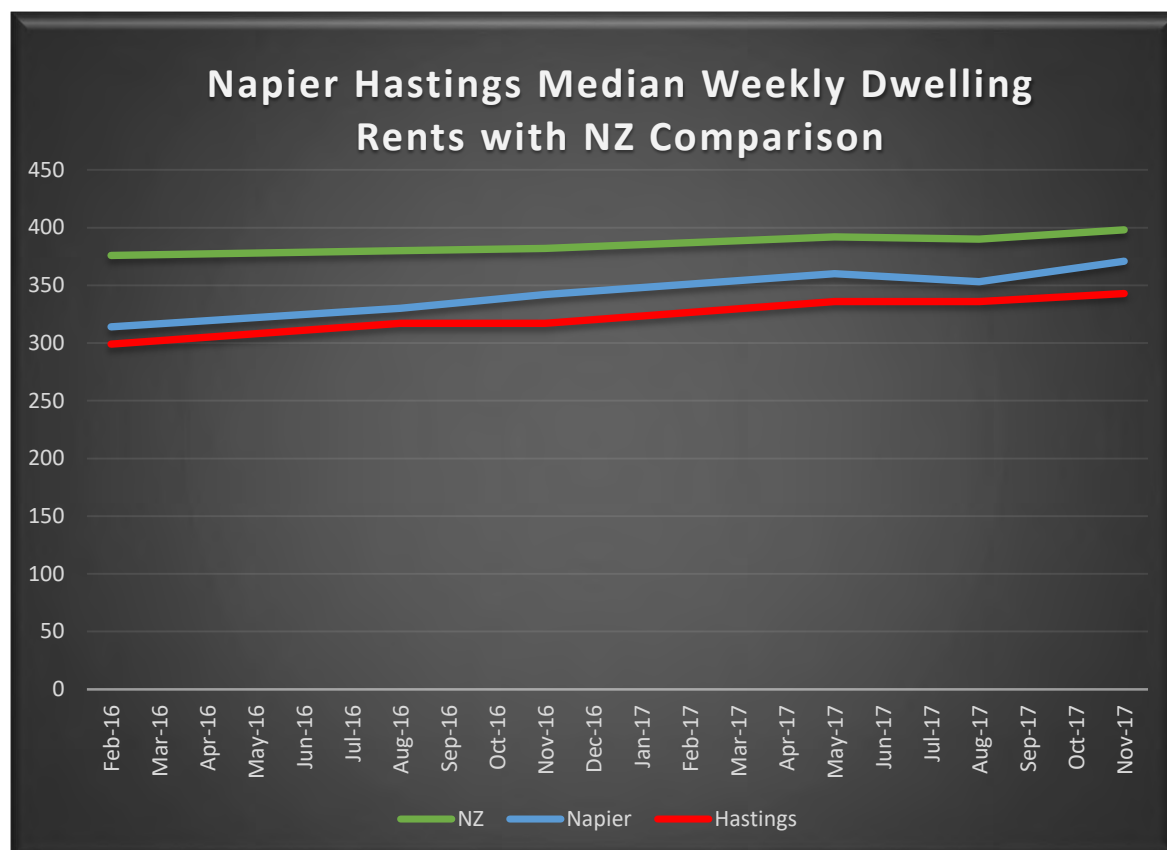
- 8.5. Looking at the rental market, unsurprisingly the trend for rental movements has mimicked that for house prices over time, as shown in **Figure 22** below. The more recent trends shown in **Figure 23** show a continuation of this trends from 2016, but at a faster pace than nationally and showing that like house price, median rents are slightly higher in Napier.

Figure 22: Napier Hastings 12 Month Rolling Median Dwelling Rents



(Source MBIE Dashboard)

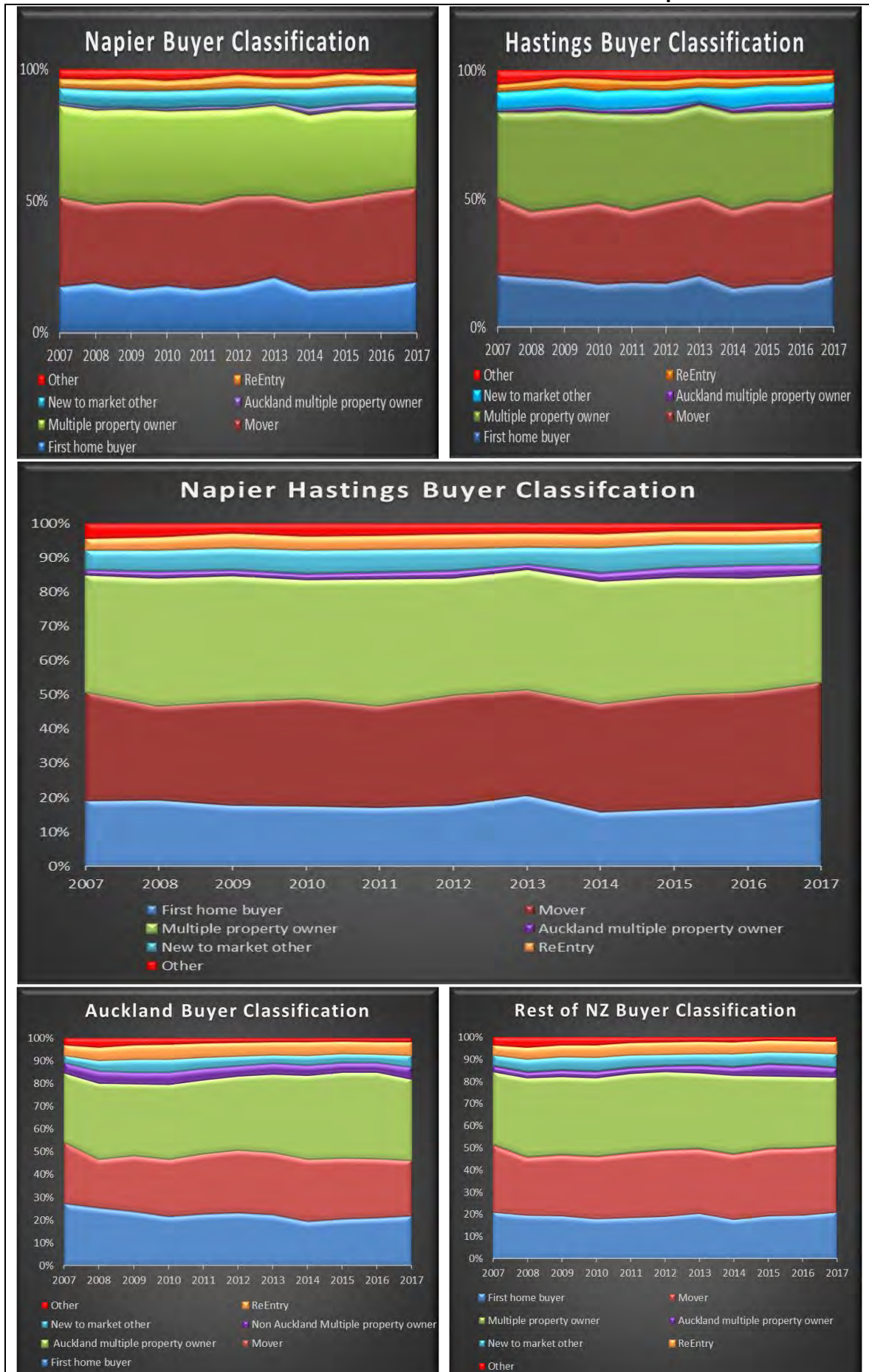
Figure 23: Napier Hastings Monthly Average Rental Movements 2016-2017



(Source Massey University)

- 8.6. These trends have mimicked to some extent the rise in household growth from 2016, and 2017 in particular, and the in-migration to the region is likely to be a key driver of the price movements. If the migration trend continues, then one of the few tools available to local Councils to address the flow on impact on housing affordability (discussed below) is to release more vacant serviced land capacity as planned and described in Section 4 above.
- 8.7. **Figure 24** shows the proportion of buyer types prevalent in the market overtime and again these are relatively consistent between Hastings and Napier, but are also consistent with Auckland and the rest of New Zealand. There is however, a more obvious increase in movers and first home buyers over investors locally since 2014 and a more pronounced spike in first home buyers in 2013. Given the relative consistency in the proportion of buyers in each category, it is possible that house price movements are likely to be dominated by factors other than household growth which would, all other things being equal, manifest itself in a greater proportion of first home buyers, particularly given the lack of regional variation.

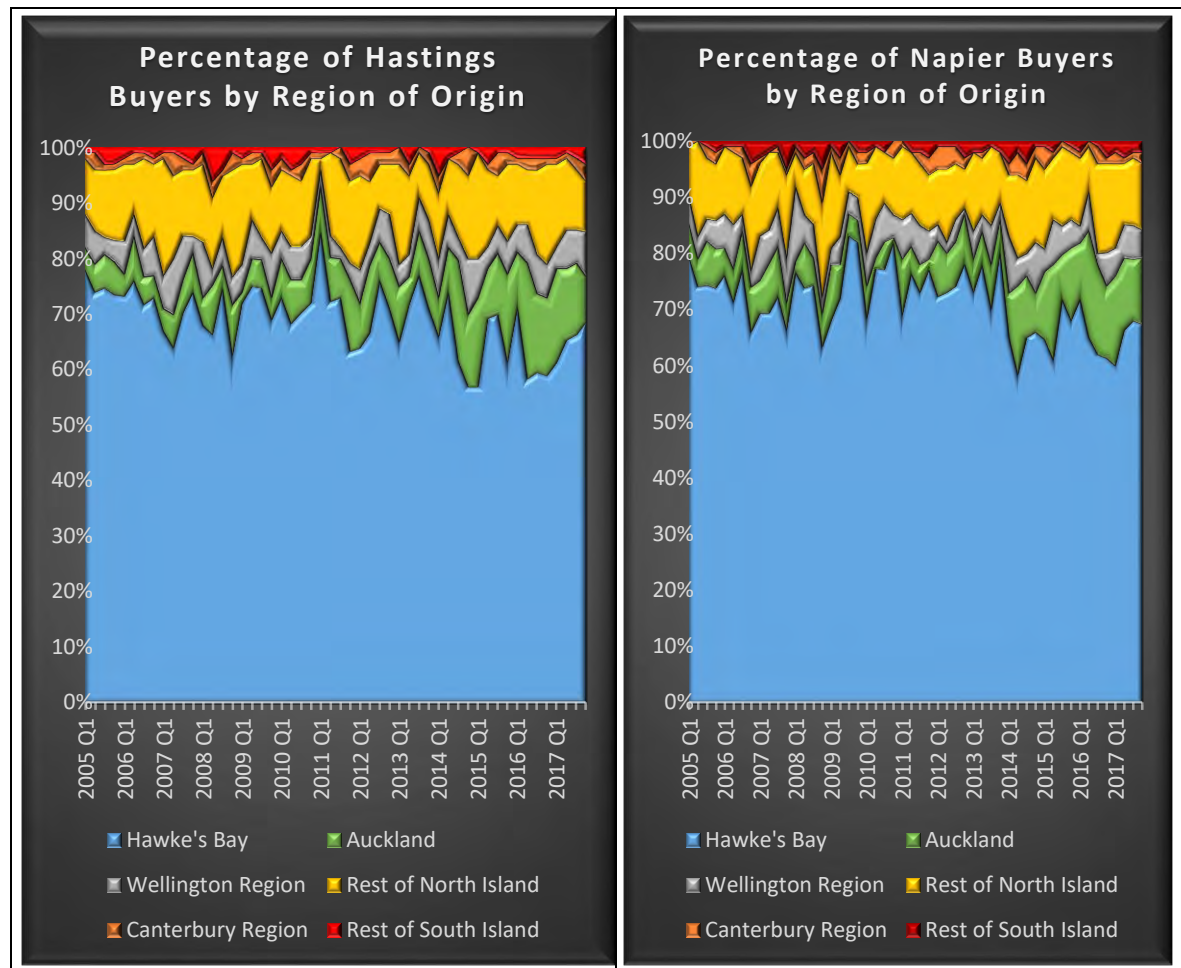
Figure 24: Napier Hastings House Buyer Classification 2006-2017 with Auckland and Rest of New Zealand Comparisons



(Source Core-logic)

- 8.8. What is more obvious is that a greater proportion of buyers have originated from the Auckland Region since 2014 as shown in **Figure 25** up from 6% to around 12%, which is broadly consistent with anecdotal information from property industry sources. Buyer from Wellington and the rest of the North Island average close to 20% by comparison. The 2018 census will provide a more definitive measure of movers from outside the region.

Figure 25: Origin of Buyers Purchasing Property in Hawke's bay 2005-2017

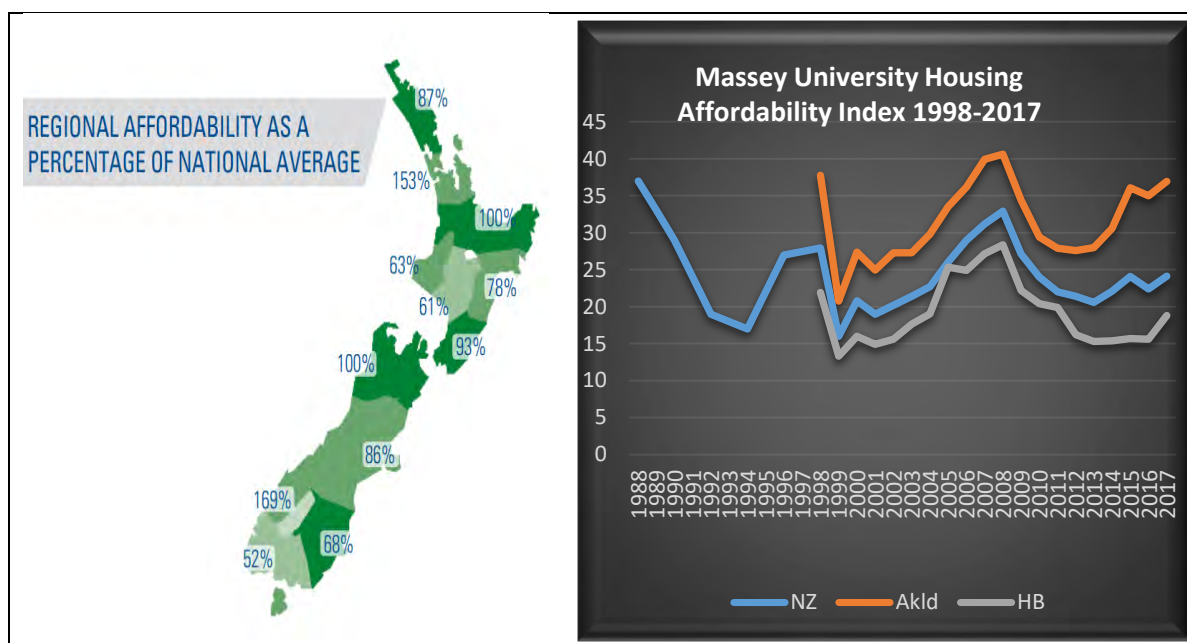


(Source Core-Logic)

9. Housing Affordability

- 9.1. The above data all provide indicators of the cost pressures on housing. When combined with measures of income, an overall view of housing affordability can be determined. One of these measures is the long running Massey University Housing Affordability Index which takes into account median disposal income and the costs of servicing a standard mortgage. **Figure 26** below shows the change in the index for Hawke's Bay relative to Auckland and New Zealand from 1998 to 2016, while **Table 4** compares HB with the other New Zealand Regions since 2016. The figures for New Zealand go back as far as 1988 when mortgage interest rates were approaching 20%.

Figure 26: Hawke's Bay Massey University Housing Affordability Index 1998-2017



(Source Massey University)

Table 4 Massey University Home Affordability Index Regional Comparison Nov 2016-Nov 2017

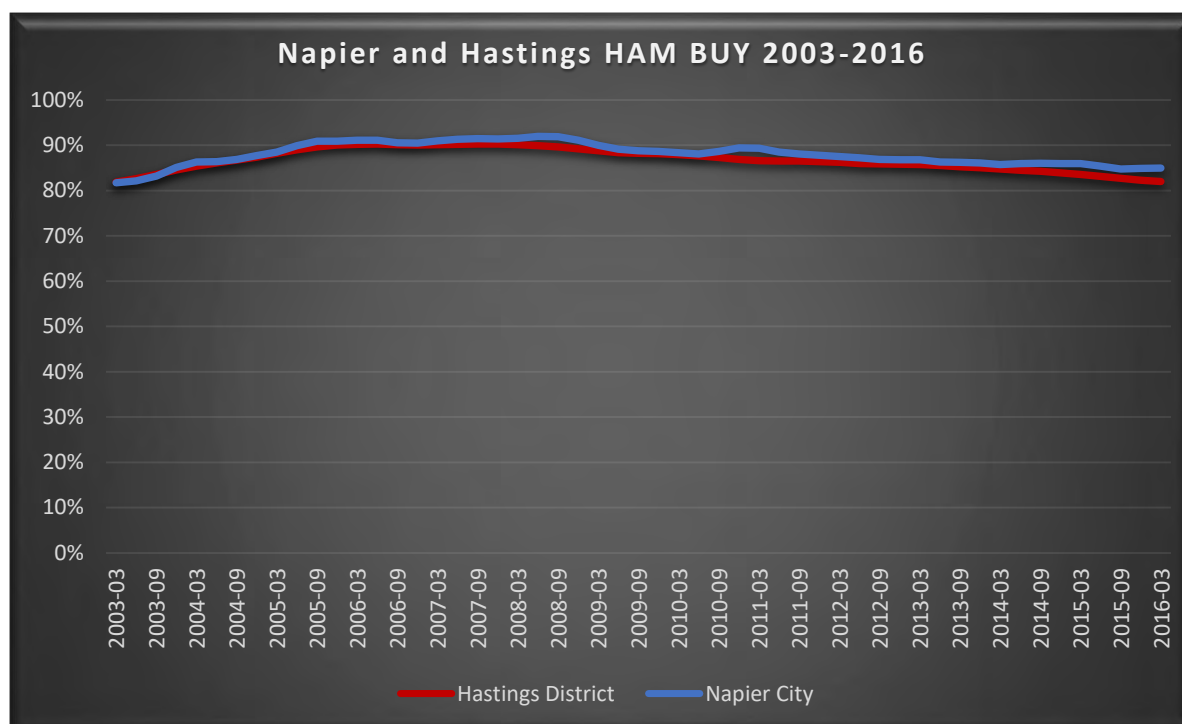
HOME AFFORDABILITY INDEX				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	November 2016	August 2017	November 2017	Improvement	Decline	Improvement	Decline
Northland	19.84	20.87	20.98		5.7%		0.5%
Auckland	35.89	36.15	36.94		2.9%		2.2%
Waikato/Bay of Plenty	22.36	24.05	24.03		7.5%		0.0%
Hawke's Bay	15.99	19.11	18.81		17.6%	1.6%	
Taranaki	15.18	13.91	15.27		0.6%		9.8%
Manawatu/Whanganui	12.77	13.82	14.61		14.4%		5.7%
Wellington	20.07	20.69	22.47		12.0%		8.6%
Nelson/Marlborough	22.56	24.32	24.20		7.3%	0.5%	
Canterbury/Westland	19.93	19.46	20.85		4.6%		7.1%
Otago	14.76	15.98	16.39		11.0%		2.6%
Central Otago Lakes	33.25	40.38	40.87		22.9%		1.2%
Southland	11.00	11.87	12.52		13.9%		5.5%
New Zealand	22.96	24.05	24.14		5.1%		0.4%

(Source Massey University)

- 9.2. The recent surge in inwards migration accompanying Hawke's Bay's buoyant economy and possibly the pinch point in section supply, has seen affordability deteriorate over the last 12 months by 17.65 points, although it improved slightly over the last three months. Hawke's Bay's position relative to other regions has however stayed steady at 5th most affordable.
- 9.3. Another measure(s) of affordability relates to trends in housing affordability for the first home buyer household (HAM Buy). **Figure 27** below shows that for potential home-owning

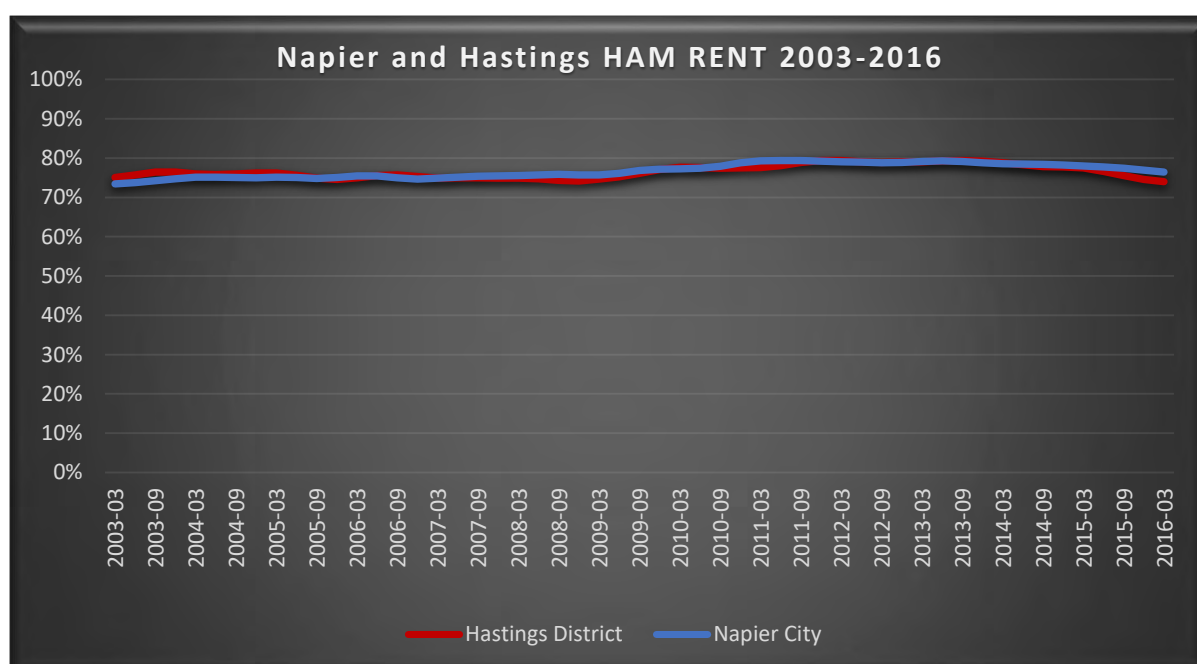
households, residual income after housing costs if they were to buy a modest first home in the area in which they currently live would be below average for 80% of households compared to around 90% in 2008. **Figure 28** shows a similar result for the share of renting households with below average income after housings cost, but getting worse in recent times as rental increase seem to be lagging house price movements (see **Figure 29** below).

Figure 27: Napier Hastings HAM First Home Buyer Affordability Measure 2003- 2016



(Source MBIE Dashboard)

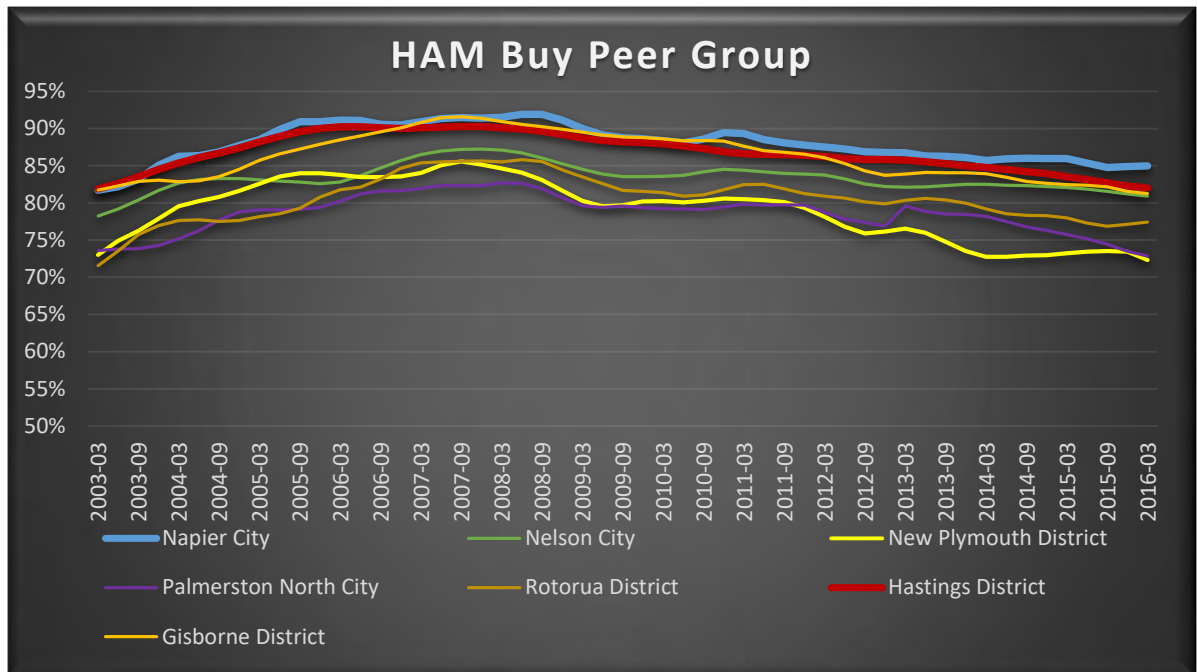
Figure 28: Napier Hastings HAM Share of Rent to Income Affordability Measure 2004-2016



(Source MBIE Dashboard)

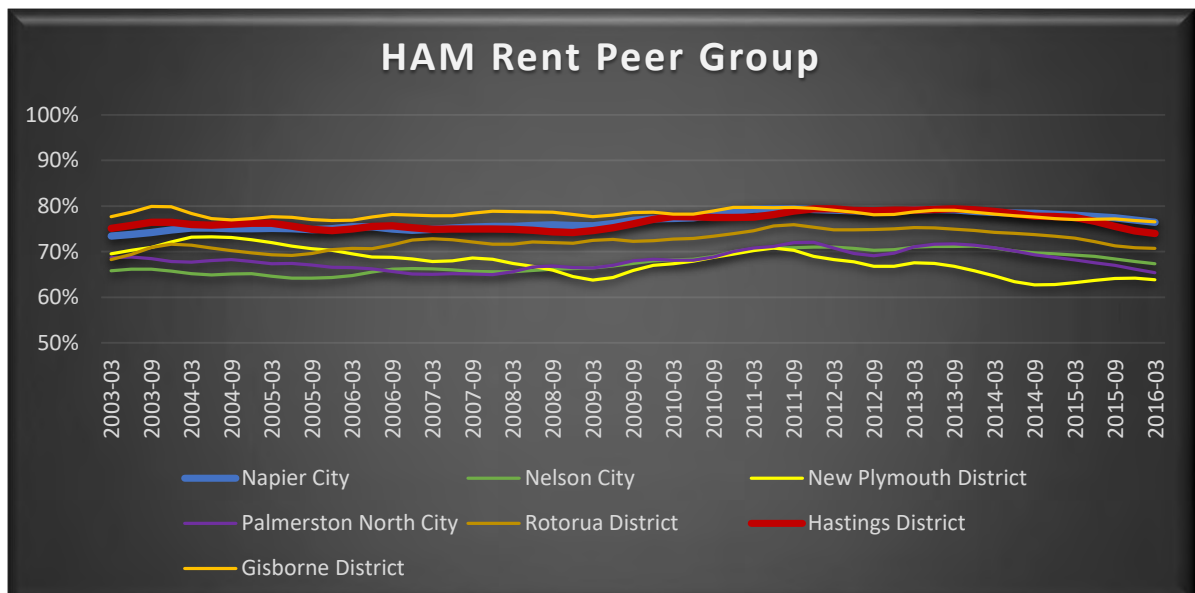
- 9.4. Looking at the peer group results shown in **Figure 29** we see that Hawke's Bay is amongst the least affordable with Gisborne, and more recently Nelson which has shown rapid house price movements over the last 12-18 months. **Figure 30** shows the peer group results for the HAM Rent measure.

Figure 29: HAM First Home Buyer Affordability Peer Group Comparison



(Source MBIE Dashboard)

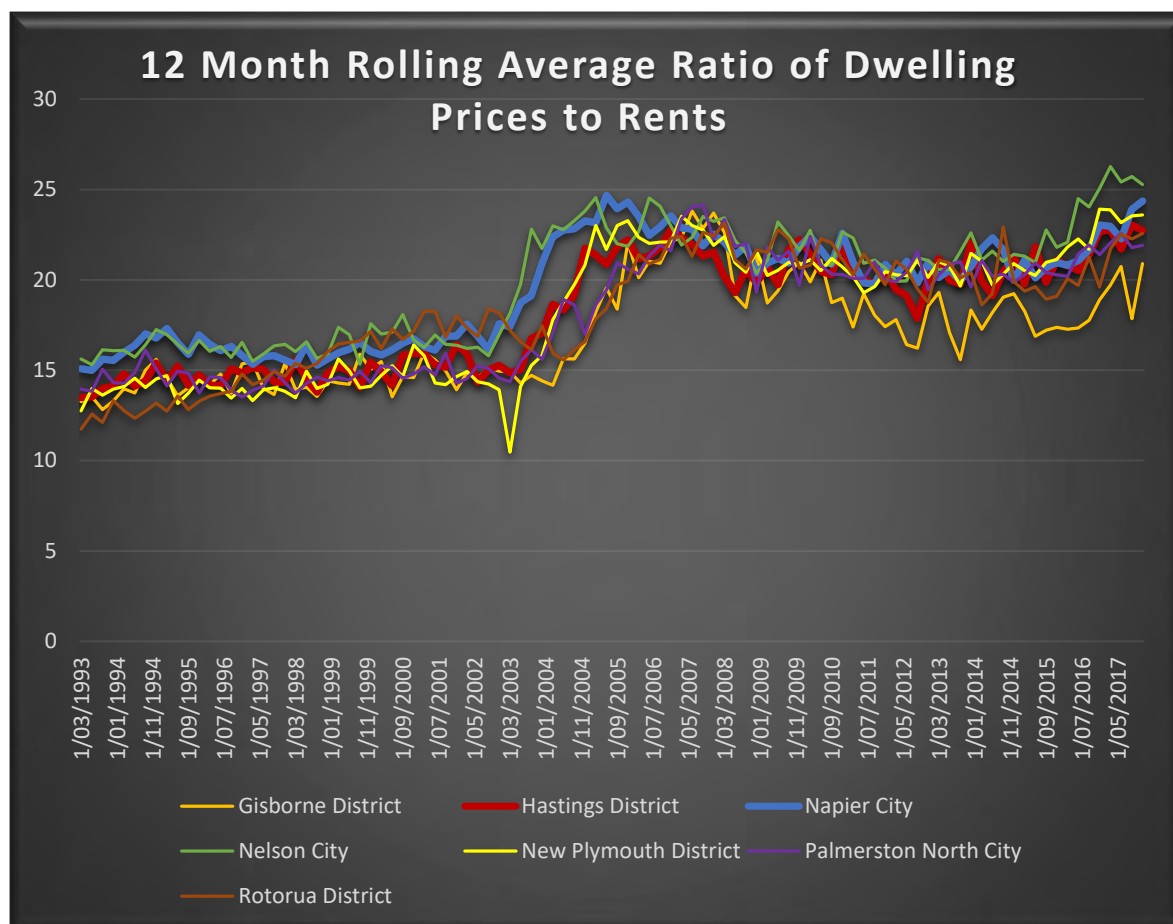
Figure 30: Napier Hastings HAM Share of Rent to Income Affordability Peer Group Comparison



(Source MBIE Dashboard)

- 9.5. This is similar to the HAM Buy trend, but with the house price rises in Nelson yet to show through in terms of increasing rents as shown. This is confirmed by **Figure 31** which shows the ratio of rents to house prices for the peer group cities.

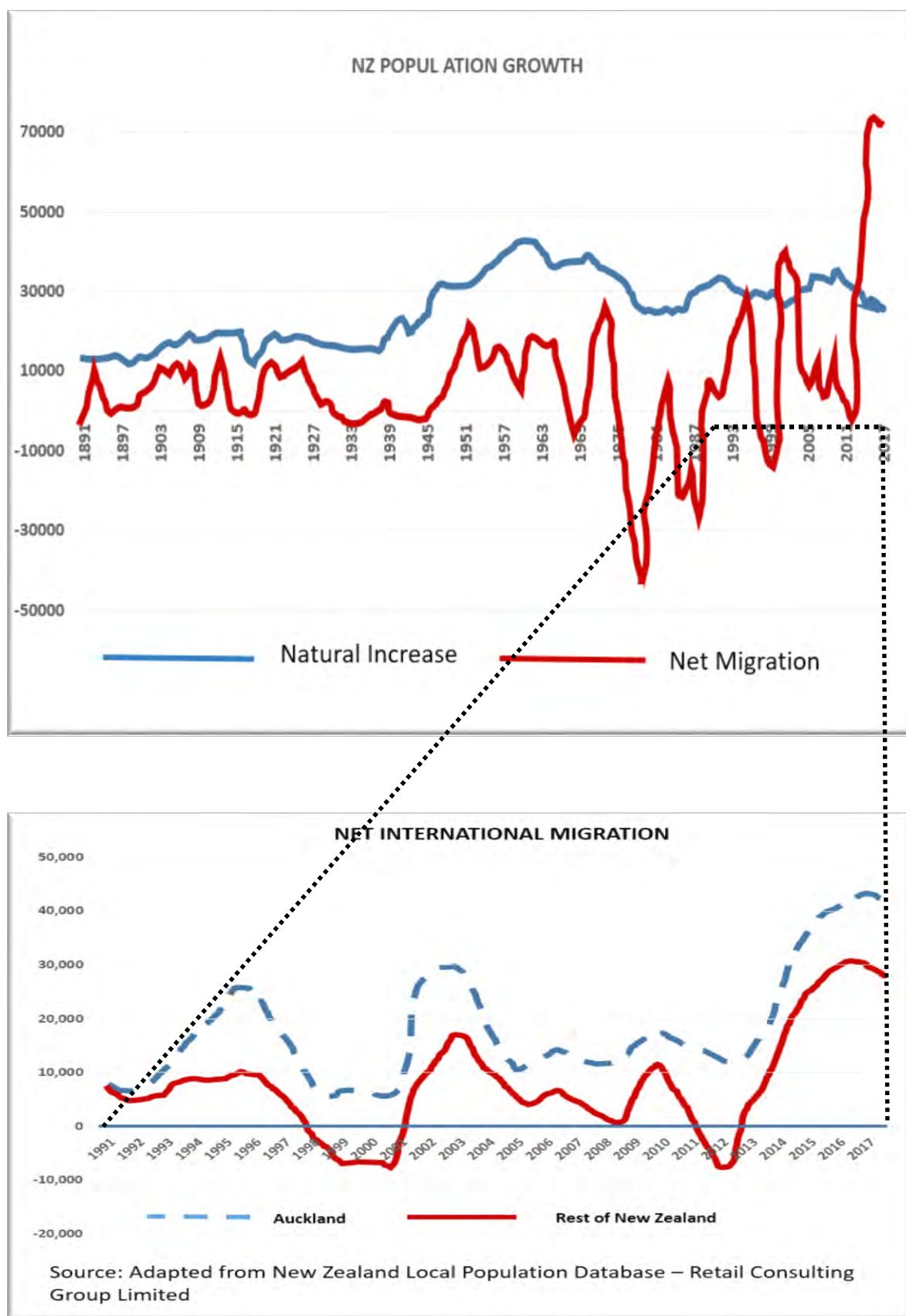
Figure 31: Peer Group Cities 12 Month Rolling Ratio of Dwelling Sales Prices to Rents



(Source MBIE Dashboard)

- 9.6. Of concern with the trend shown in figure 26 is the fact that the ratio of house prices to rents has shown a significant increase as house prices have risen and this could signal a lagged rise in rents and therefore deterioration in the HAM Rent measure of affordability.
- 9.7. Overall home affordability in the region sits well relative to the rest of New Zealand, but is worsening as house prices rise quickly on the back of record increased migration from 2013 (see Figure 32), a buoyant local economy, and some pinch points in residential land supply. Lower incomes in the region however, mean that house price rises have greater effect on below average incomes compared to regions with less income inequality as represented in the peer group comparisons for the HAM Buy and HAM Rent statistics.

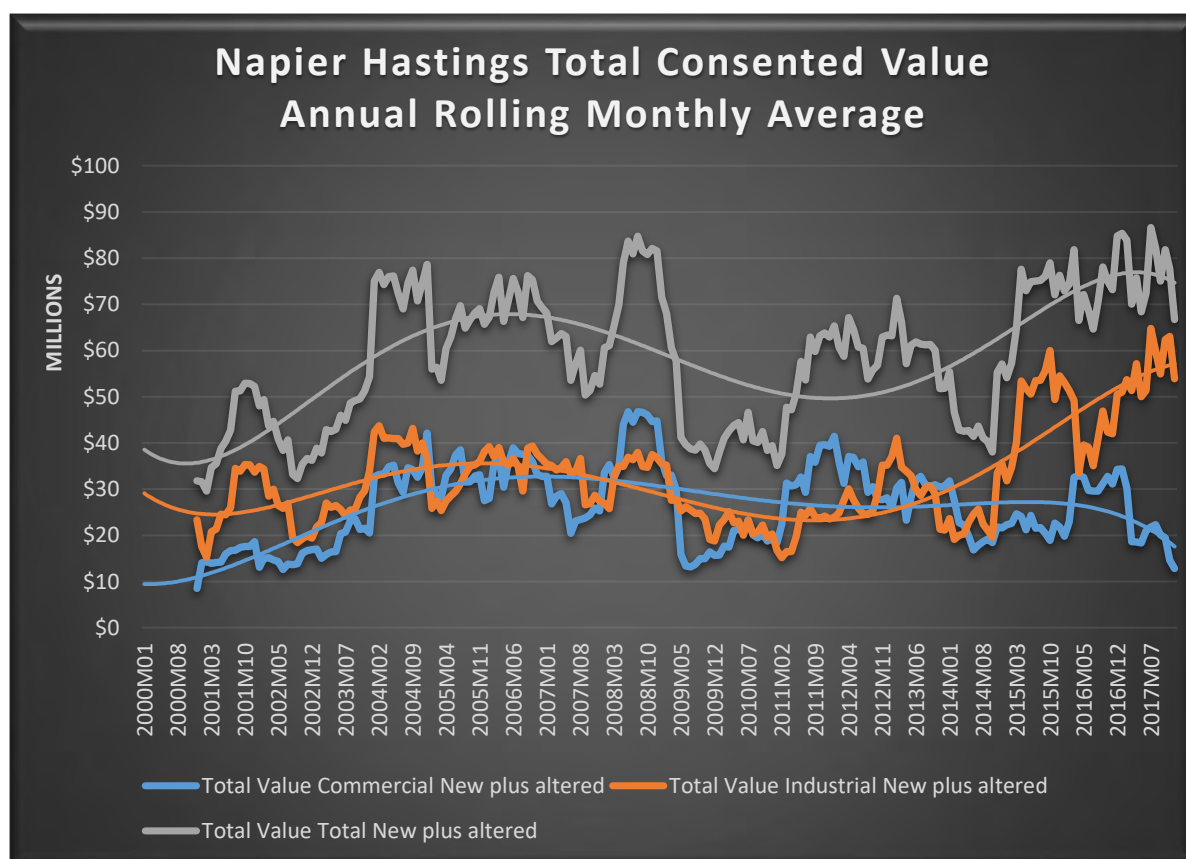
Figure 32: New Zealand Migration and Population Growth



10. Business Building Activity

- 10.1. **Figure 33** below shows the total value of commercial and industrial consents issued since 2000, peaking just before the GFC, but reaching those levels again off the back on new industrial developments over the last two years. Commercial construction values have remained steady since 2005.

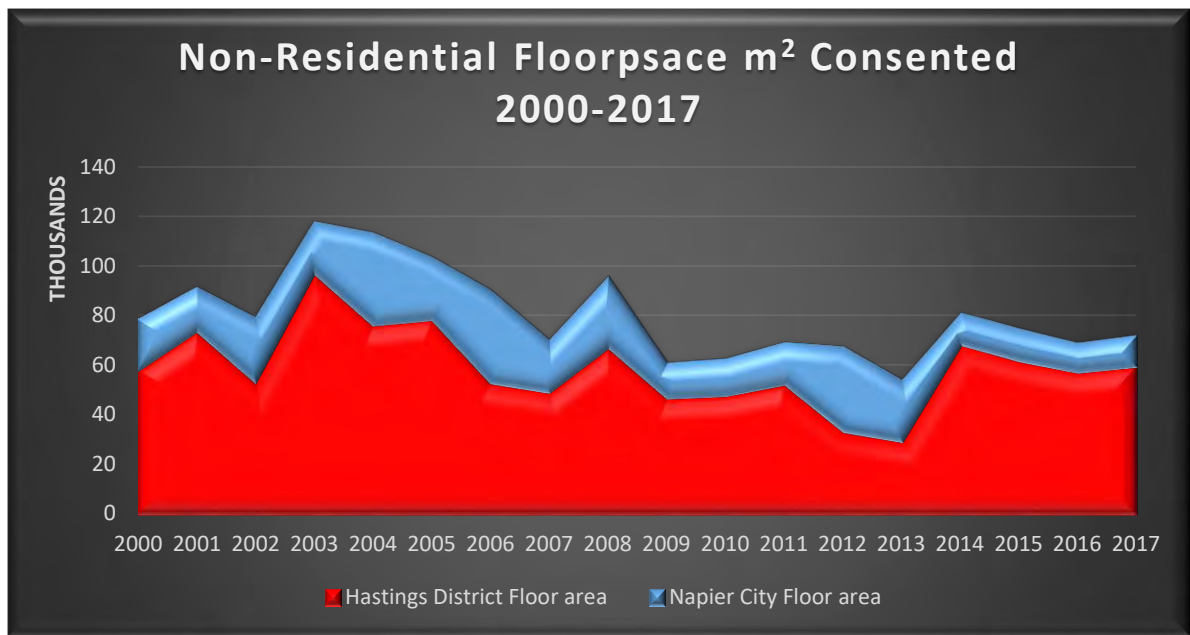
Figure 33: Monthly Rolling Building Consent values for Napier Hastings Commercial and Industrial Buildings 2000-2017



(Source StatsNZ)

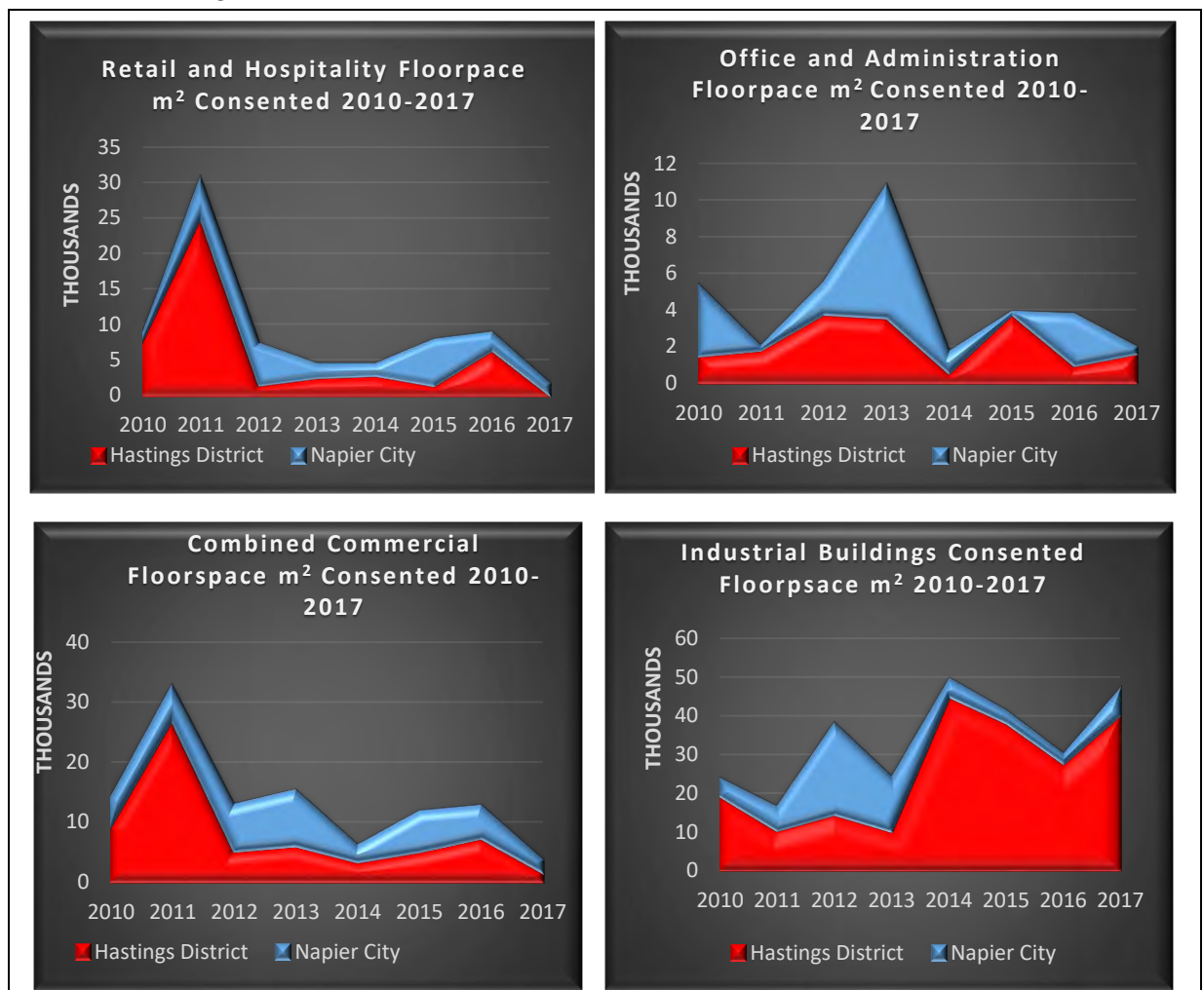
- 10.2. While consented industrial value has increased from around 2014, **Figure 34** shows the total non-residential floorpace consented since 2000 for Hastings and Napier. This indicating a more subdued pattern overall. The Hastings figures do show an increase of approximately 50% from around 2014, but less than a previous spike in experienced 2003. **Figure 35** breaks this down into industrial, retail and office floorspace from 2010 by both Hastings and Napier and combined area.

Figure 34: Napier Hastings Non Residential Floorspace Consented 2000-2017



(Source StatsNZ)

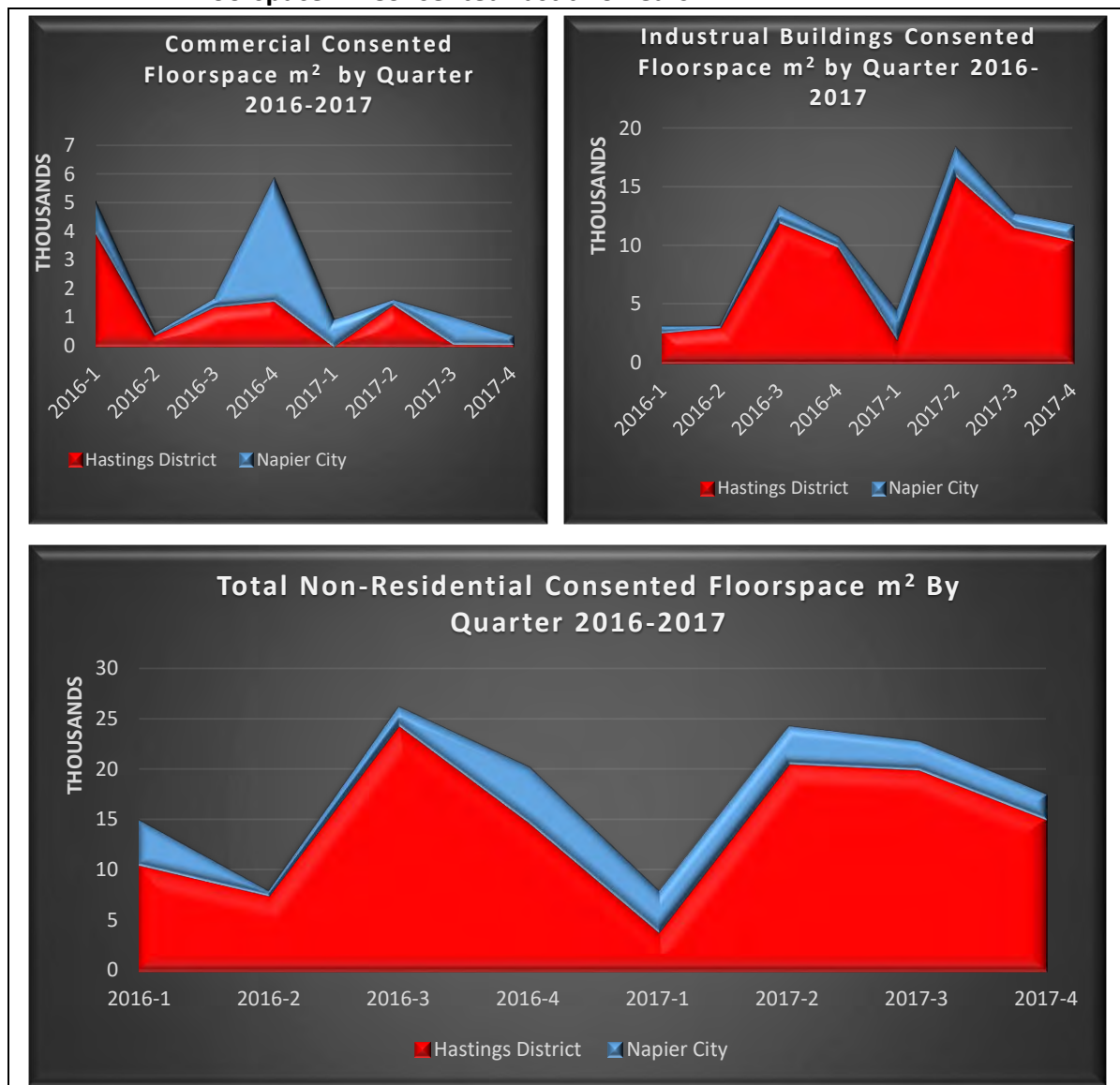
Figure 35: Napier Hastings Industrial and Commercial Floorspace Consented 2010-2017



(Source StatsNZ)

- 10.3. **Figure 35** in particular shows the “spikey” nature of commercial development in terms of added floorspace. The retail figures are dominated by the 2011 ‘The Park’ mega centre expansion, while the office figures are dominated by the 2013 Ahuriri Hub development in Napier.
- 10.4. The spikey nature business land development is further highlighted in quarterly building consents for commercial, industrial and total non-residential building floorspace consents shown in **Figure 36** below. Apart from the 4th quarter of 2016 the figures are dominated by Hastings, particularly for Industrial, which may be an indication of supply issues in Napier that could be worth investigating further.

Figure 36: Napier Hastings Quarterly Commercial Industrial and Total Non-Residential Floorspace m² Consented Last two Years

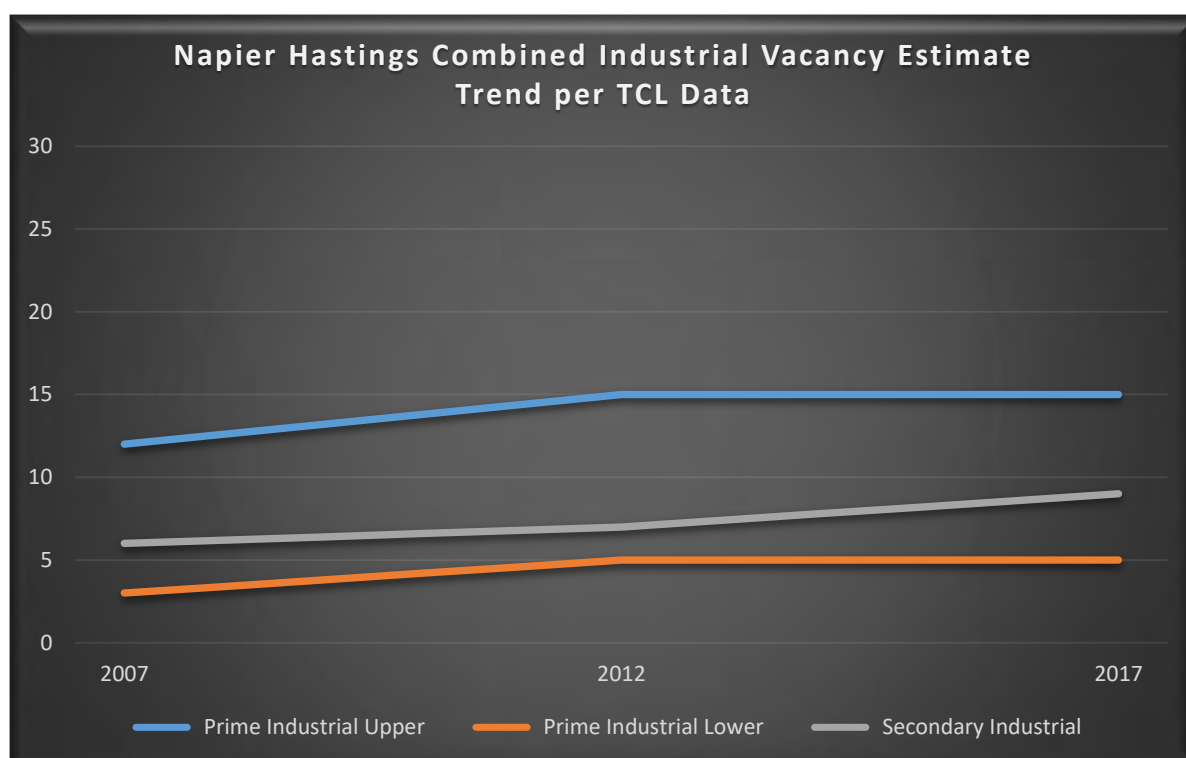


(Source StatsNZ)

11. Business Vacancy

- 11.1. The figures below have been adapted from estimates of business vacancy supplied by Turley & Co for industrial, retail and office activity for the combined Napier Hastings areas¹. While data for intervening years is available from Turley & Co for more detailed analysis, the graphs below reflect discrete estimates for 2007, 2012 and 2017 (based on 2nd and 4th Quarter estimates made at those times), to give a broad indication of a trend over 10 years.
- 11.2. **Figure 37** presents this information for industrial vacancy with prime property given as an upper and lower estimate. While the trend seems to be fairly level over time the overall rate is consistently low, suggesting constrained supply for prime industrial property. In this respect the Hastings District Council's recent substantial rezoning of new industrial areas at Irongate, Omaha North and the Tomoana Food Hub have yet to filter through to easing of supply within the existing property market.

Figure 37: Napier Hastings Combined Industrial Vacancy Estimate Trend

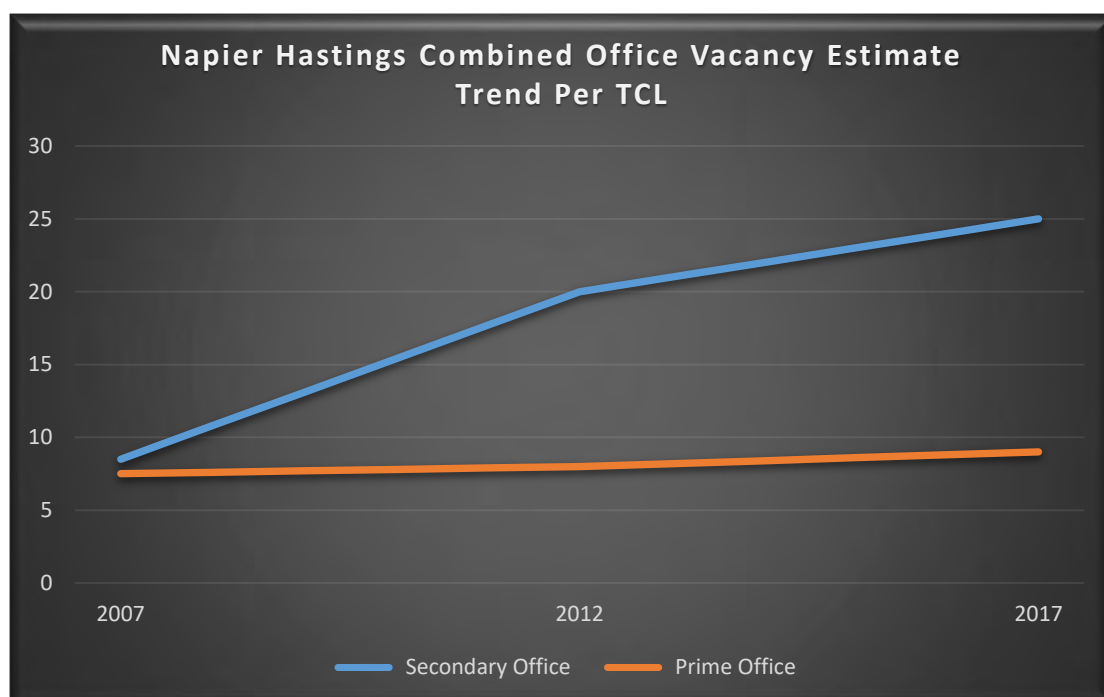


(Source Turley & Co Data.)

- 11.3. **Figure 38** below shows similar data for the office sector. The 2012 to 2017 vacancy rates are likely to be due to the seismic issues arising from the Canterbury earthquakes with secondary property being vacated in favour of prime property with higher seismic rating. While later stock has been expanding in response appears to be still sought after, but economic conditions are likely to be a contributing factor as these seismic issues are addressed. The high rate of secondary office property vacancy suggests there is still plenty of scope for redevelopment in this sector.

¹ These graphs and discussion above based on them, are the partner Council's *adaptation and interpretation* of a report prepared for them by Turley & Co for the purposes of this report only. No liability shall attach to or be accepted by HDC, NCC, HBRC or Turley & Co. either directly or indirectly in reliance on its publication in this document.

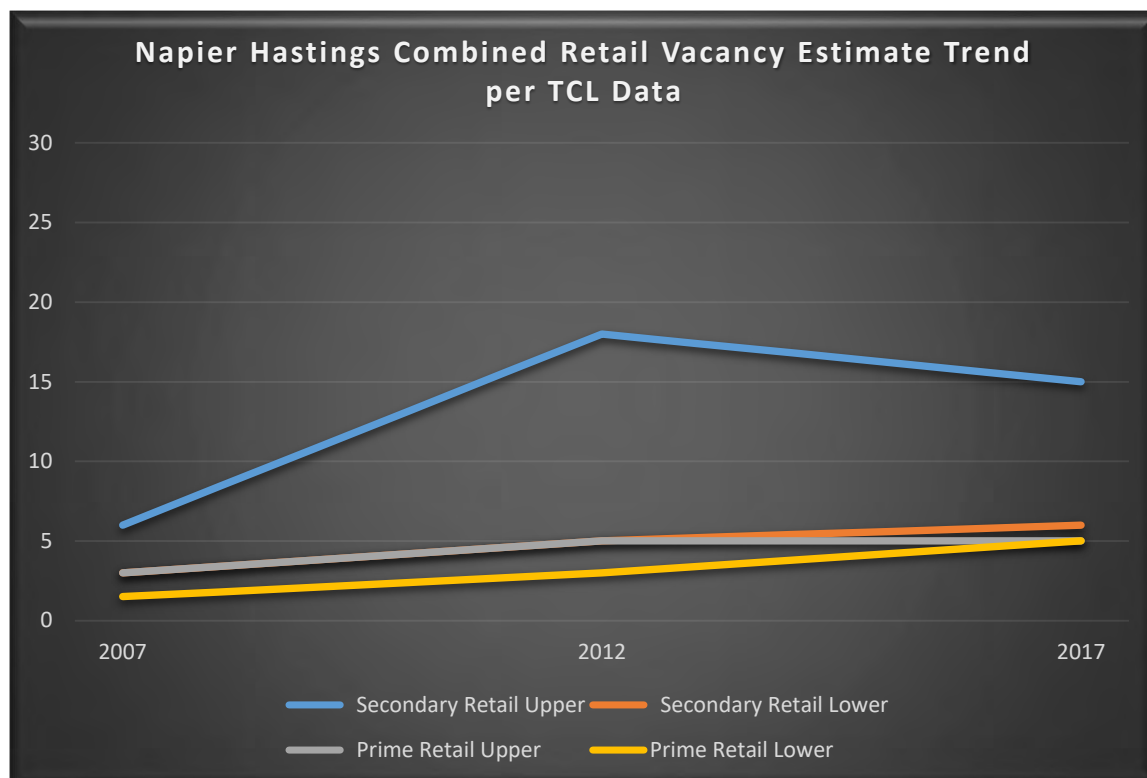
Figure 38: Napier Hastings Combined Office Vacancy Estimate Trend



(Source Turley & Co Data)

- 11.4. **Figure 39** below provides the same information again for the retail sector. In this case prime means main street strip retail e.g. Upper Emerson Street, Heretaunga 100 and 200 West blocks , while secondary means the main street contiguous strip retail adjacent to primary retail locations. Larger format locations are excluded.
- 11.5. While prime retail vacancy remains very low secondary property has trended upwards during themed period, probably as a result of the global financial crises of 2008/09 and increasing on-line retailing. Reduction in secondary retail property vacancy could be a result of a more buoyant economy, but the fact that it hasn't returned to pre GFC levels and slight rise in prime vacancy could be the result of on-line purchasing increasing and expansion in the large format sector, particularly at the Park Mega Centre. The number (supply) of mainstreet shops has expanded. Retail property markets are more complex than this commentary may suggest, but for this exercise the data does not indicate an obvious shortage or constraint in the supply of retail property.

Figure 39: Napier Hastings Combined Retail Vacancy Trend



(Source Turley & Co Data.)



Appendix 1 - Common placenames in Hastings/Napier urban area