



HASTINGS & NAPIER URBAN AREA

Housing and Business Market Indicator Monitoring

4th Quarter and Baseline Update Report to 31 December 2018



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Report# SD 19-20

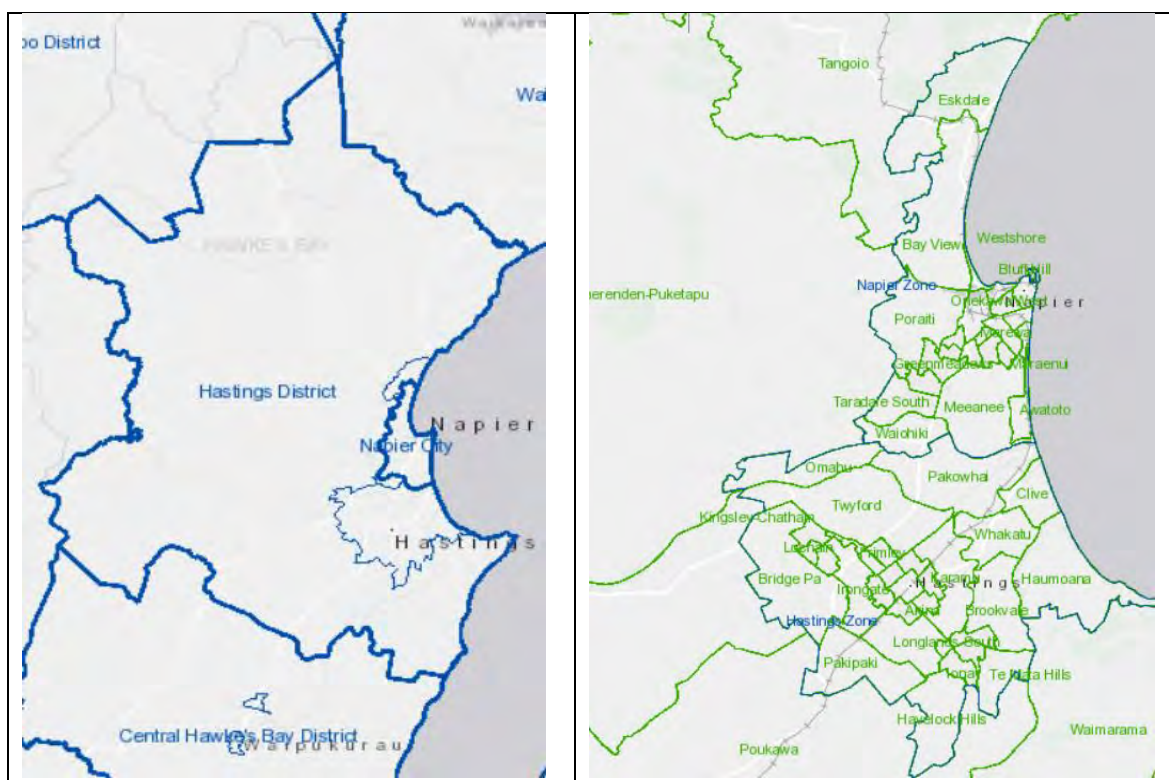
1. Purpose of this Report

- 1.1. This report has been prepared by the Napier City, Hastings District and Hawke's Bay Regional Councils to provide an overview of the Napier Hastings property market using a selection of housing and business indicators. It is designed to meet the governments National Policy Statement on Urban Development Capacity (NPSUDC), which came into effect on 1 December 2016. The NPSUDC directs local authorities to ensure sufficient feasible urban development capacity is provided to support housing and business growth. Its emphasis is on understanding the demand for housing and business land by staying well-informed about urban development activity by monitoring property market indicators on a quarterly and annual basis.
- 1.2. This and subsequent iterations of the report are therefore 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 the 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 Assessments that are also required by the NPSUDC.

2. Background

- 2.1. The Hastings Napier Urban Area as defined by Statistics New Zealand's (SNZ) classification of urban areas includes Napier City and the Hastings District, excluding the census area units of:
 - Waimarama
 - Tangoio
 - Sherenden Puketapu
 - Poukawa
 - Maraekakaho
 - Tutira
- 2.2. 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



- 2.4. Under the NPSUDC Urban Areas that are 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 areas. For the Hastings Napier Extended Urban Area SNZ forecasts for 2013-2023 are just over 5%.
- 2.5. NPSUDC Policy PB6 therefore 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.
- 2.6. In April 2017 a Baseline Monitoring report was prepared and subsequently three shorter quarterly reports were prepared updating selected data in the Baseline report. This report is the second annual monitoring Report and represents the fourth quarter report for 2018 and an update of the 2017 Baseline report.

3. Joint Monitoring Approach

- 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.

- 3.2. The monitoring and price efficiency indicators will be used, by the partner Councils to inform housing and business land capacity assessments, including estimates of remaining capacity and projected uptake rates. These in turn 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.
- 3.3. 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 to December 2018.
- 3.4. This report is broken down into the following sections, but it is important that the report is read as a whole and interpretation of what is happening in the market requires looking data in combination, rather than in isolation.
 - Residential Land Capacity
 - Land Prices /Sales Activity
 - House Prices Sales
 - Housing Affordability
 - Business Building Activity
- 3.5. It should also be noted the property market activity can be highly influenced by macroeconomic influences which can mask or distort the effects of local influences. Consequently caution should be exercised in drawing conclusion or deciding what actions need to be taken and longer term trends should be relied on over shorter term indications of emerging trends where significant capital or land use decisions are involved.
- 3.6. **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.

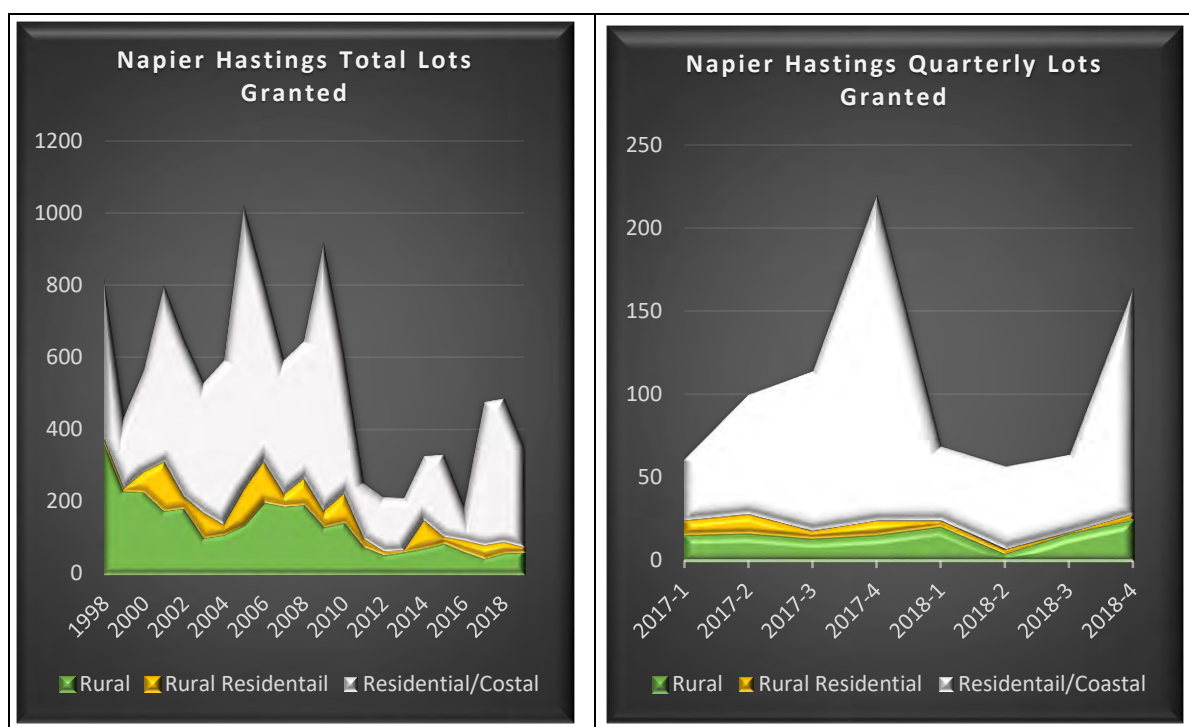
Table 1 Summary of Indicators Reported

NPSUD C-Ref	Type	Topic	Figure or Table	Indicator	Updated
PB6 (b)	Residential	Land	Figure 2	Napier Hastings Total Lots Granted	Quarterly
PB6 (b)	Residential	Land	Figure 3	Napier Hastings Urban Lots Granted	Quarterly
PB6 (b)	Residential	Land	Table 2	Current Residential Land Capacity & Uptake	Quarterly
PB6 (b)	Residential	Land	Figure 4	Greenfield Land Uptake	Quarterly
PB6 (b)	Residential	Land	Table 3	Current and Planned Residential Capacity	Annual
PB6 (b)	Residential	Land	Figure 5	Rural Lifestyle Capacity	Annual
PB6 (a)	Residential	Land	Figure 6	Residential Section Sales Volume	Quarterly
PB6 (a)	Residential	Land	Figure 7	Average Residential Section Sales Prices	Quarterly
PB6 (a)	Residential	Land	Figure 8	Price Cost Ratio Napier Hastings	Annual
PB6 (a)	Residential	Land	Figure 9	Price Cost Ratio NZ Regional Benchmark	Annual
PB6 (a)	Residential	Land	Figure 10	Price Cost Ratio Trend Peer Group Cities	Annual
PB6 (a)	Residential	Land	Figure 11	Average Land Value Trend Peer Group Cities	Annual
PB6 (a)	Residential	Land	Figure 12	Land Value % Percentage of Capital Value Trend Peer Group Cities	Annual
PB6 (b)	Residential	Dwellings	Figure 13	Napier Hastings New Dwelling Consents	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	Napier Hastings House Sales Volume & Prices	Quarterly
PB6 (a)	Residential	Dwellings	Figure 22	Weekly Rental Monthly Movements	Annual
PB6 (a)	Residential	Dwellings	Figure 23	Rolling Average Weekly Dwelling Rents	Quarterly
PB6 (a)	Residential	Dwellings	Figure 24	Napier Hastings House Buyer Classification	Annual
PB6 (a)	Residential	Dwellings	Figure 25	Origin of Buyers Purchasing Property in Napier Hastings	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	Napier Hastings Rental Affordability Measure	Annually
PB6 (c)	Residential	Affordability	Figure 30	Rental Affordability Peer Group	Annually
PB6 (b)	Residential	Affordability	Figure 31	Rolling Average Ratio of Dwelling Prices to Rents Peer Group Trend	Annually
PB6 (b)	Residential	Affordability	Figure 32	New Zealand Net Migration and Dwelling Construction Rates	Annually
PB6 (b)	Business	Value	Figure 33	Napier Hastings Twelve Monthly Rolling Commercial Building Consent Values	Quarterly
PB6 (b)	Business	Building	Figure 34	Non Residential Floorspace Consented	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. Residential Land Capacity

- 4.1. Overall residential land capacity comprises greenfield residential areas, infill development potential, brownfields developments and other dispersed types of living environments such as costal settlements, marae based communities and rural residential/lifestyle living.
- 4.2. Figure 2 shows the estimated number of lots for which consent was granted over the last 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 slowdown post the global financial crisis, but with a resurgence starting around 2016. More recently the spike in the last quarter of 2017 largely is due to two large infill subdivisions in Guppy Road Napier previously in long standing market garden use finally being released for development. A large amount of rural subdivision over the earlier part of the millennium tailed off after 2010 and appears to have reached a new equilibrium. The spike at the end of 2018 is related to a large block of land in Lyndhurst Stage 2.

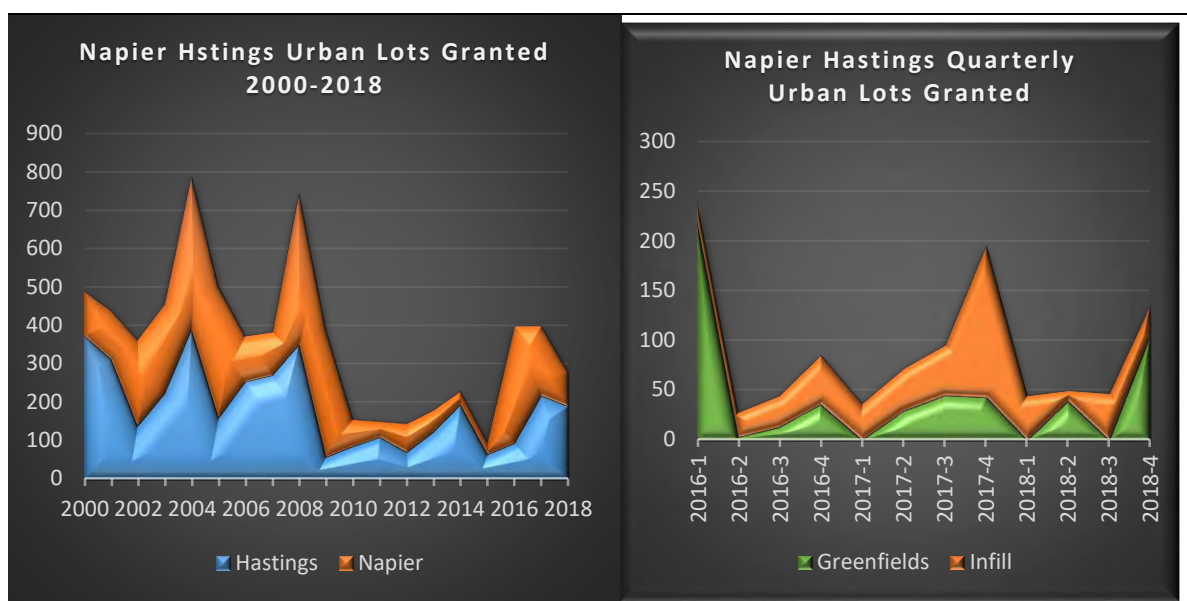
Figure 2: Napier Hastings Total Lots Granted 1998-2018



Source NCC and HDC)

- 4.3. Figure 3 shows the residential lots created broken down by Napier and Hastings and quarterly for infill and Greenfields. The spike in greenfield lots consented in the last quarter of 2016 was largely due to a large consent stage at the Napier City Council subdivision at Parklands. By its nature, greenfield subdivisions tends to occur in large numbers at irregular intervals, but the construction and release of the actual sections usually occurs in smaller stages. The 2017 Guppy Road subdivisions are also evident in the spike in infill in the fourth quarter of 2017 and the large Lyndhurst greenfield stage subdivision in the last quarter of 2018.

Figure 3: Napier Hastings Urban Lots Consented



(Source NCC and HDC)

- 4.4. Table 2 sets out the remaining vacant residential lot capacity within greenfield areas as the end of December 2018 after allowing for building consents over the previous quarter. 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 166 lots in Napier and 190 in Hastings have been granted resource consents, but physical construction has not yet been completed.

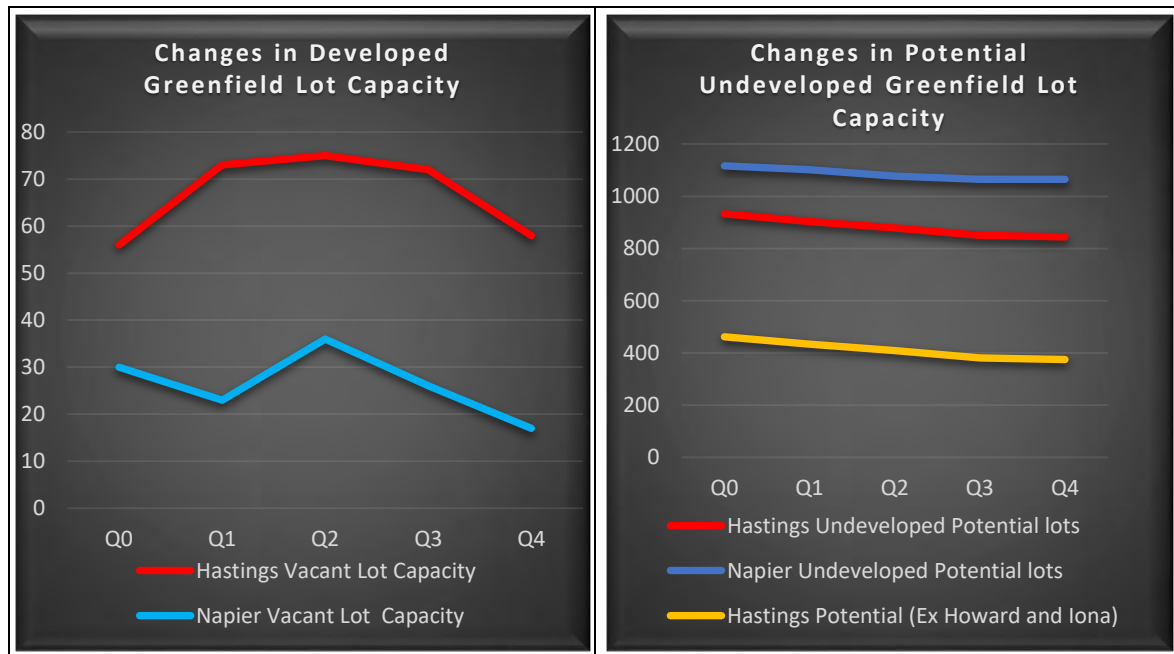
Table 2: Residential Land Capacity and Quarterly Uptake to December 2018

31-Dec-2018	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-Sep					
Arataki	17	5	1	21	30	51
Lyndhurst Stage 1	4	1	1	4	12	16
Lyndhurst Lifestyle Village	8	0	8	0	0	0
Lyndhurst Stage 2	38	0	10	28	255	283
Northwood	4	0	0	4	77	81
Parklands	13	0	4	9	156	165
Te Awa	13	0	5	8	909	917
Total	97	6	29	74	1439	1513

(Source NCC and HDC)

- 4.5. Figure 3 shows the net change in lot capacity after allowing for new lots and those taken up for new dwellings. Current capacity is fluctuating around 80-100 lots between Hastings and Napier now that Lyndhurst Stage 2 has opened up, while undeveloped capacity is reducing slightly as new areas were released over the past year.

Figure 4: Greenfield Land Uptake 2018



(Source NCC and HDC)

- 4.6. 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.
- 4.7. HPUDS estimates a greenfield residential uptake rate of approximately 270 households per annum over the next ten years, giving a current potential supply estimate of 5-6 years¹, and with a further 5 years being provided within two years' time. However, current capacity represents only about 1/3 of the annual demand so this relies on further subdivisions stages being completed). In this respect a significant proportion of the potential zoned capacity is in Napier's Te Awa and Western Hills growth areas, so a balanced market between Hastings and Napier does rely on Iona and/or Howard Street being delivered with the next 1-2 years.
- 4.8. While there has been a recent pinch point in current capacity, current and planned developments are rectifying this situation, and should be sufficient to meet demand for 10-12 years. 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.

¹ (excluding Howard Street and Iona Road, which although now zone, are potentially 12-18 months away from being able to be subdivided due to services needing to be provided by the Council.

Table 3: Current and Planned Residential Section Capacity

Areas	Available Capacity
Currently Zoned and Developing	
Arataki	51
Lyndhurst	16
Northwood	81
Lyndhurst 2	283
Parklands	165*
Te Awa	917**
Park Island	170***
Total	1513
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
Havelock Hills	160
Kaiapo Road	350
Copeland/Murdoch	230
Irongate	270
Brookvale Romanes	575
Total	2635
Grand Total	5448

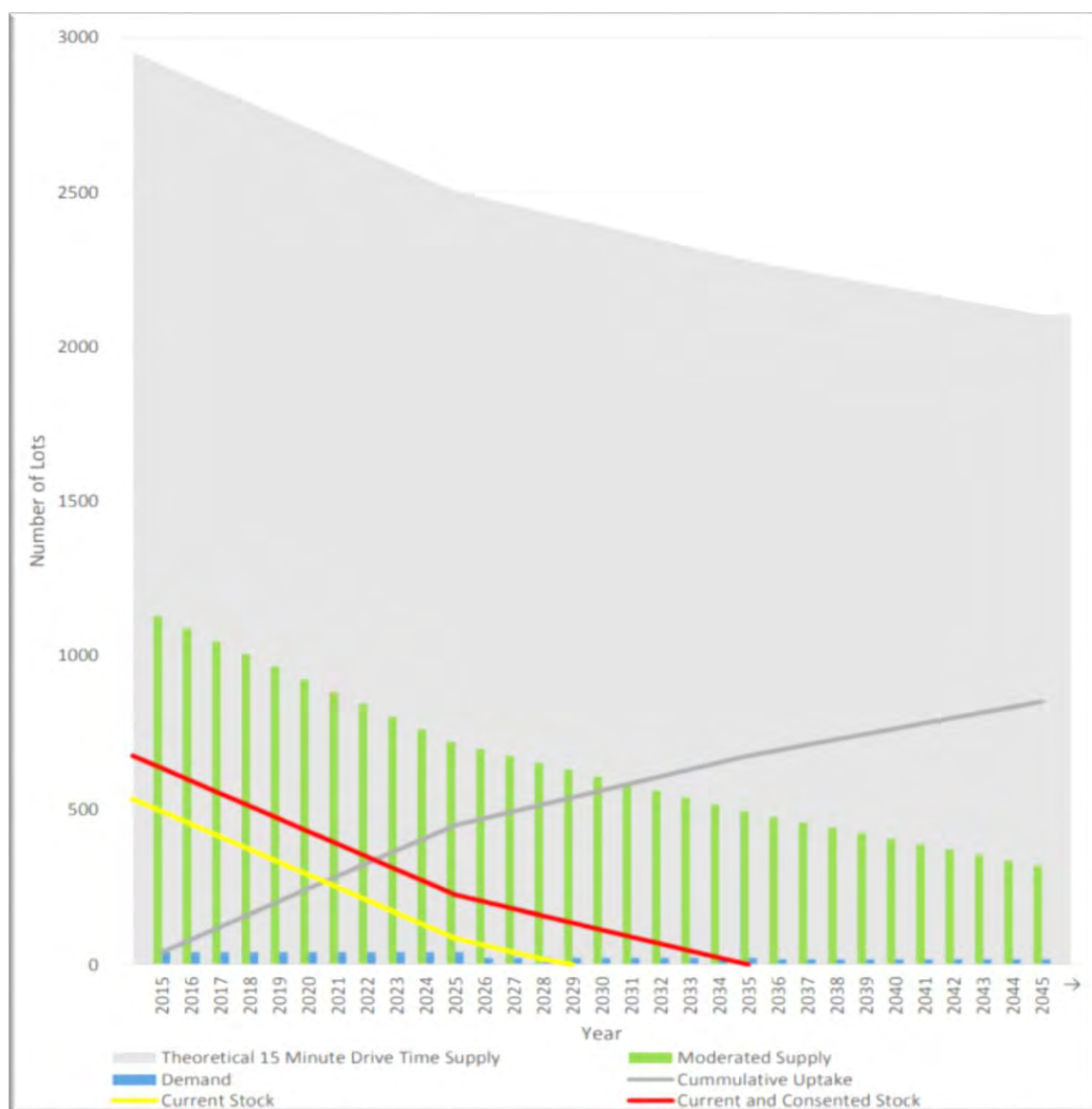
**All consented*

***Expected to occur in stages when developers are ready to pay the financial contributions/install infrastructure.*

****Subject to Treaty Settlement Claims*

- 4.9. 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 will be re-assessed as part of the three yearly Housing and Business Land Capacity Assessments .
- 4.10. Similarly a review of lifestyle lot capacity (within a 15 minute drive of the CBD) the 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



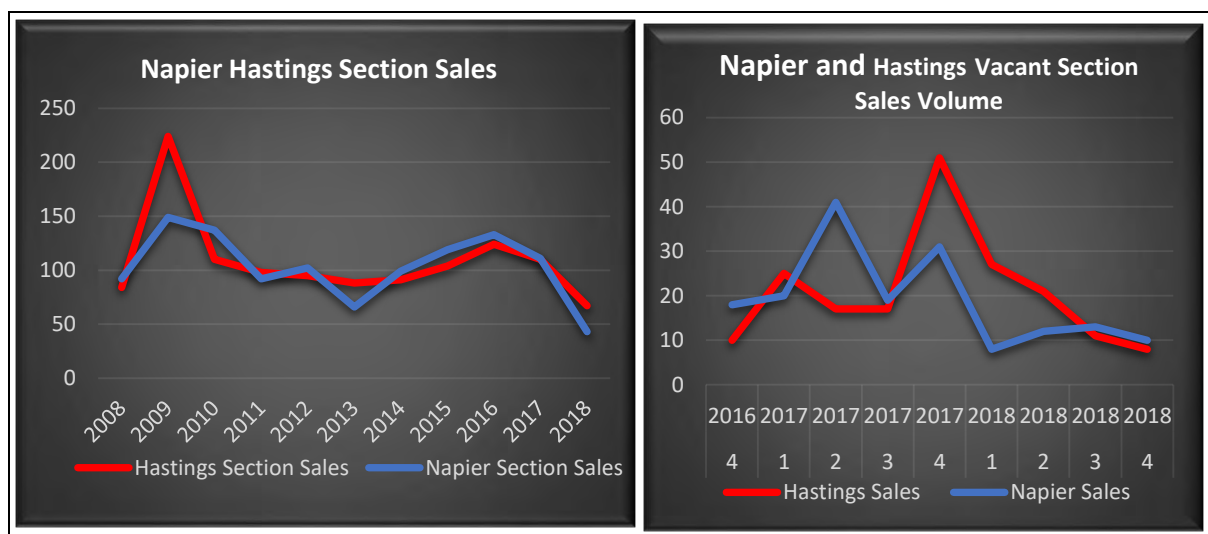
(Source "Review of Rural Residential/Lifestyle Sites - Cheal Consultants 17 June 2017")

- 4.11. 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, around 100 rural lots and 40 new rural residential lots were consented over the past two years compared to 260 new dwelling consents. If all of the deficit were lifestyle dwellings then current supply should have reduced by around 120, compared to the 100 indicated by the graph. Overall, land capacity issues should continue to ease over the next 12-18 months.

5. Land Prices /Sales

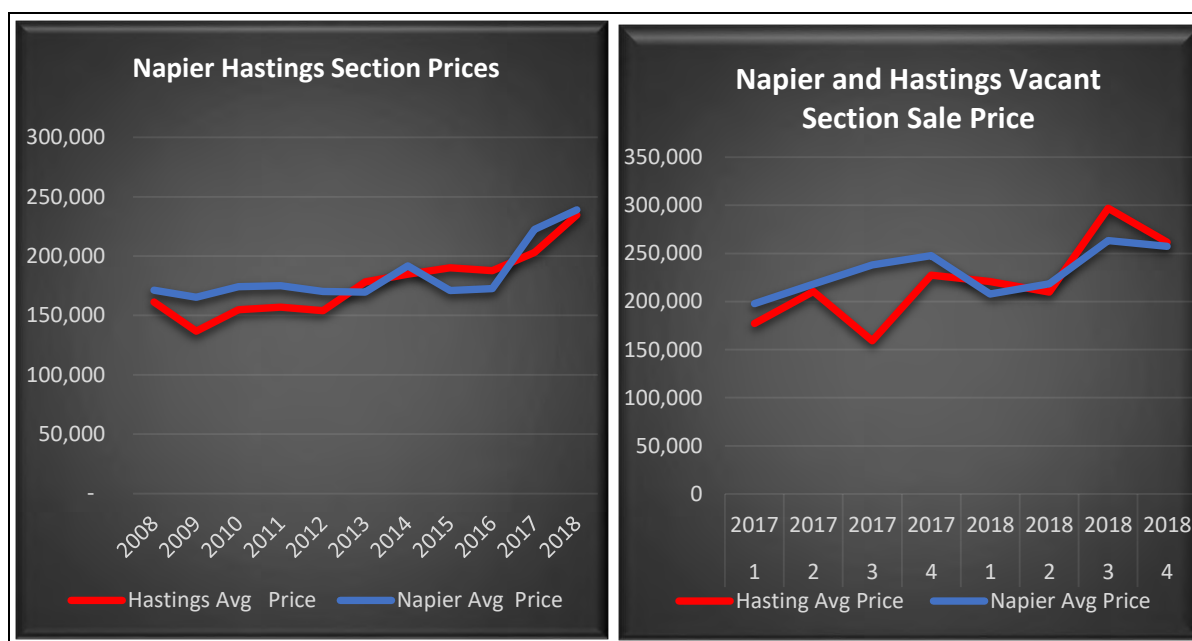
- 5.1. Figures 6 and 7 show Hastings and Napier vacant section sales volumes and average sales prices on an annual basis since 2008 and on a quarterly basis over the last 2 years. This covers both infill and traditional greenfields sites. Note the third and fourth quarters of 2018 may have some degree of under reporting due to lag in 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)

- 5.2. The similarity in the data between Hastings and Napier suggests a strong overlap between the two urban markets. The average sales price drop in Hastings in Q3 2017 relative to Napier, 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 (greenfield sites are typically selling for between \$50-70 thousand more than infill sites). Overall, steady section price growth in both cities has mirrored house price movements in both cities until 2016 when both house prices and vacant land prices accelerated more quickly. Average section prices in Hastings in particular, increased dramatically in the last two quarters of 2018. This may be partly a reflection of greater proportion of greenfield sales compared to infill as greenfield section supply eased, although anecdotally asking prices for greenfield sites did increase rapidly during that period as well.

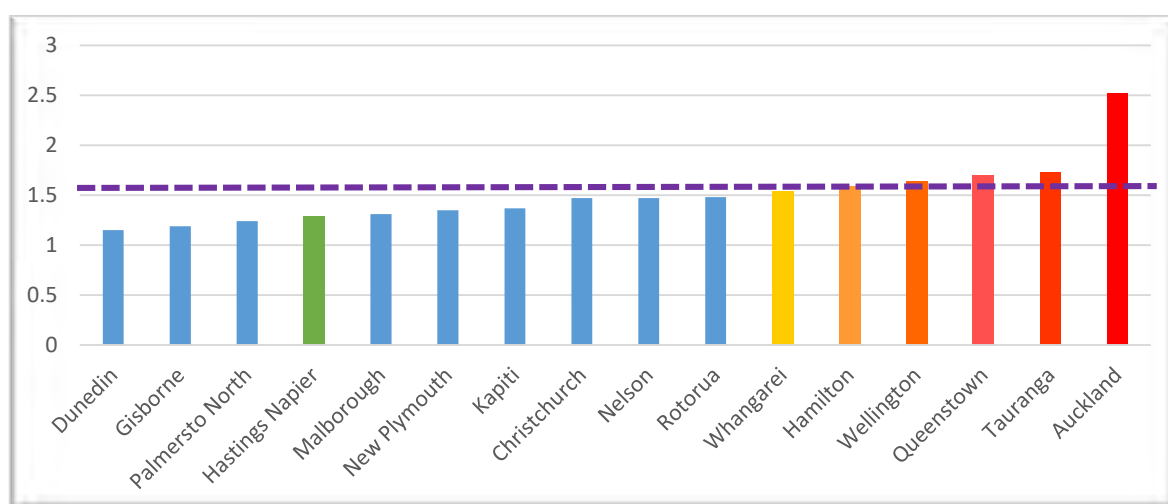
- 5.3. Figure 8 shows MBIE's² price cost ratio for the Napier Hastings Urban Area and for Napier and Hastings separately, while Figure 9 shows the 2017 ratio alongside other New Zealand Urban Areas (this data has not been updated since 2017). This is an indicator of whether a shortage of residential 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

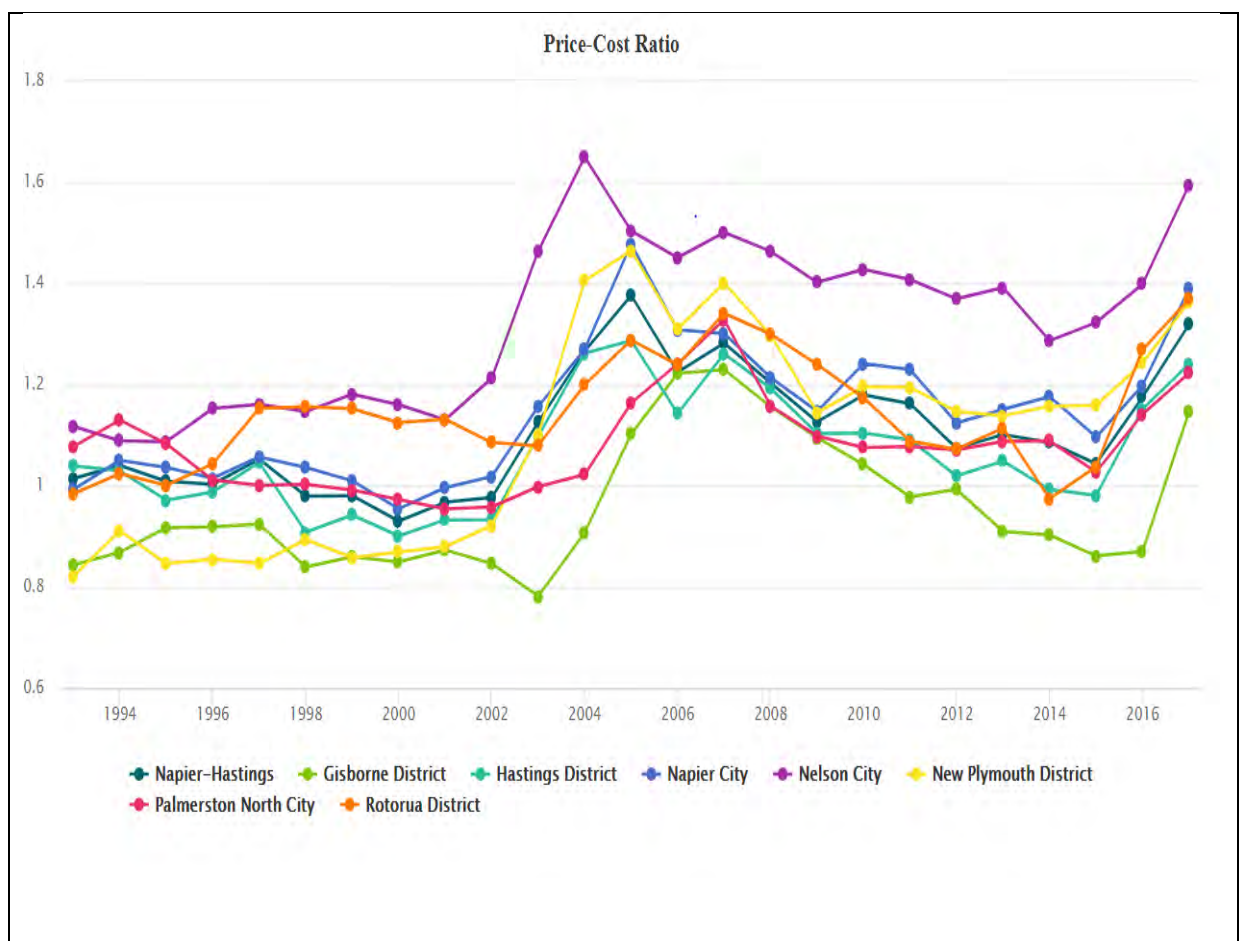


(Source MBIE Dashboard)

² The MBIE Price Efficiency Indicator data has not been updated by them since 2017 so the commentary remains largely unchanged from the 2018 report. In addition Figures 11 and 12 are based on QV rating valuations that are updated only every three years, so similarly remain unchanged from the 2018 report

- 5.4. 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 remained under 1.5 it did track upwards from 2016 which would coincide with a pinch point in greenfield land supply in Hastings, although the pattern is similar to elsewhere where land supply was not similarly constrained as discussed below. As noted above, current and programmed development is rectifying this land supply constraint and the price cost ratio should reflect this over the next year. However, the 2018 update when it becomes available (next quarter) may show a different picture, given the section price movements shown in figure 7 above.
- 5.5. 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 from 2016, also 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 Peer Group Cities

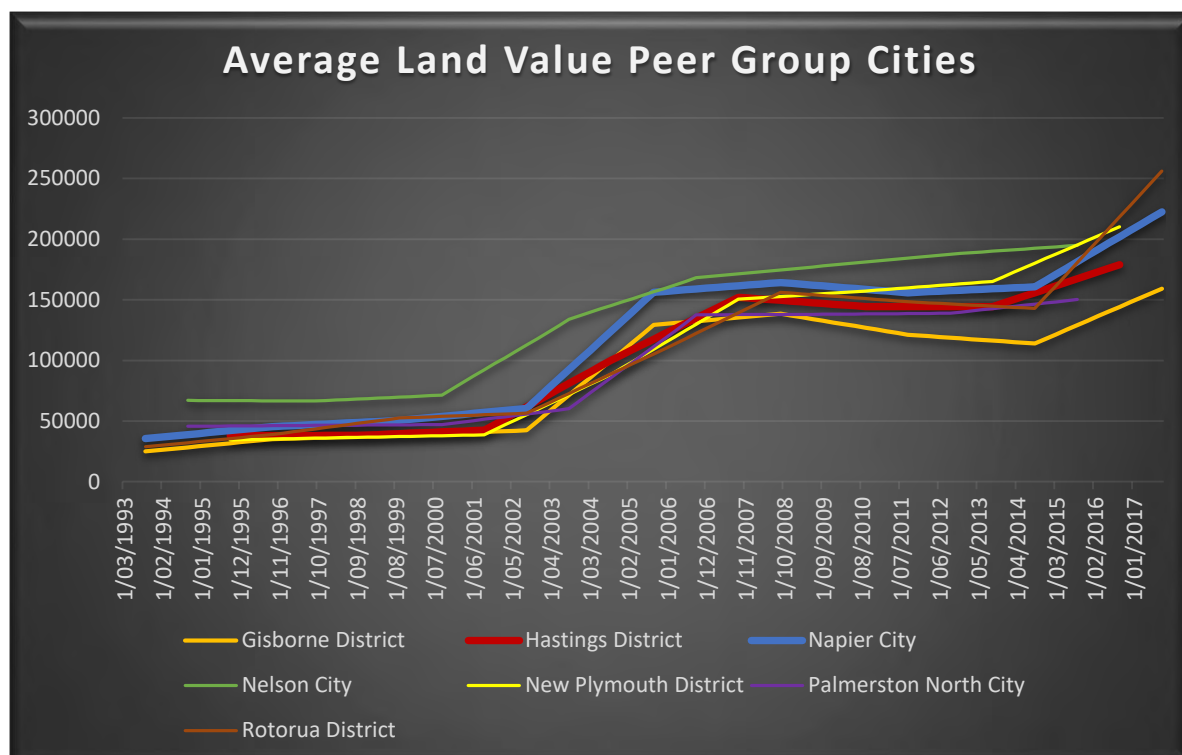


(Source MBIE Dashboard)

- 5.6. 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, and more significantly for Napier at its 2017 revaluation, but land values had not risen for either city since 2005-2007 suggesting that 2016 was a turning point for the property market locally. Land value as a percentage of capital value for the same peer group shown in Figure 12 however, suggests land prices

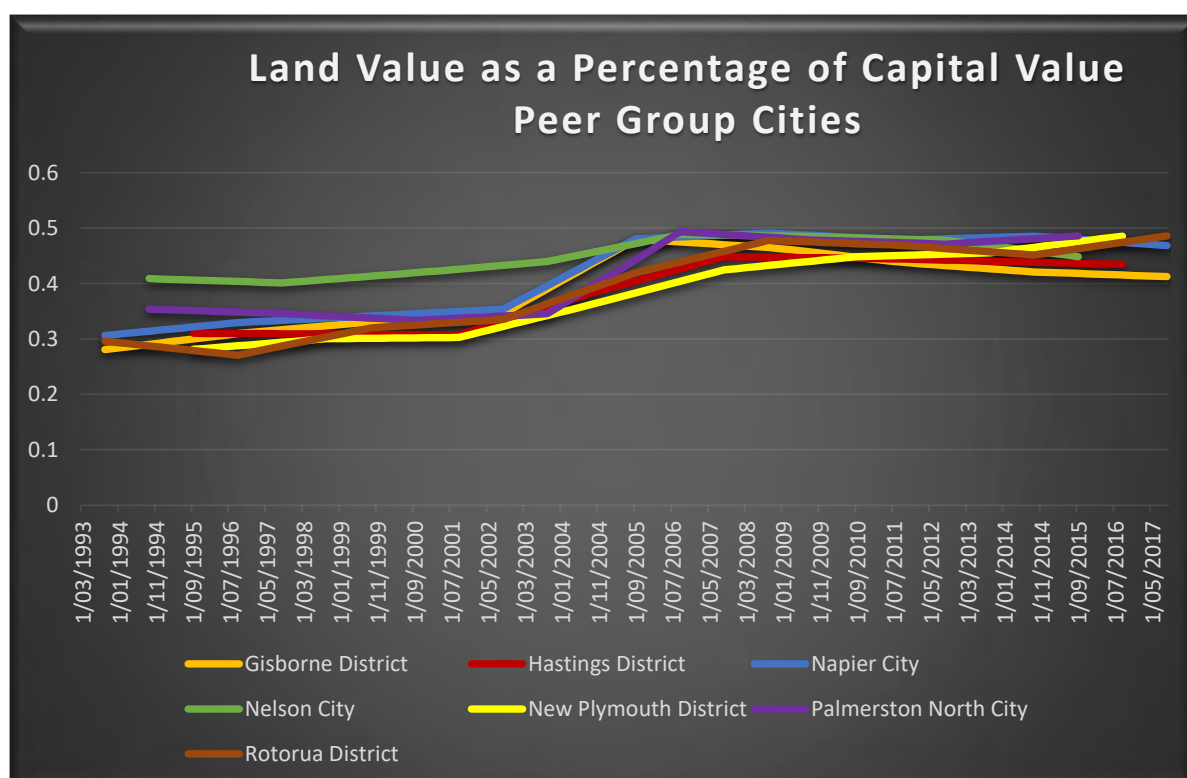
are merely keeping pace with house prices and possibly being dragged upwards by that part of the market, rather than driving them.

Figure 11: Average Land Value of Dwellings 1994-2016



(Source MBIE Dashboard)

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

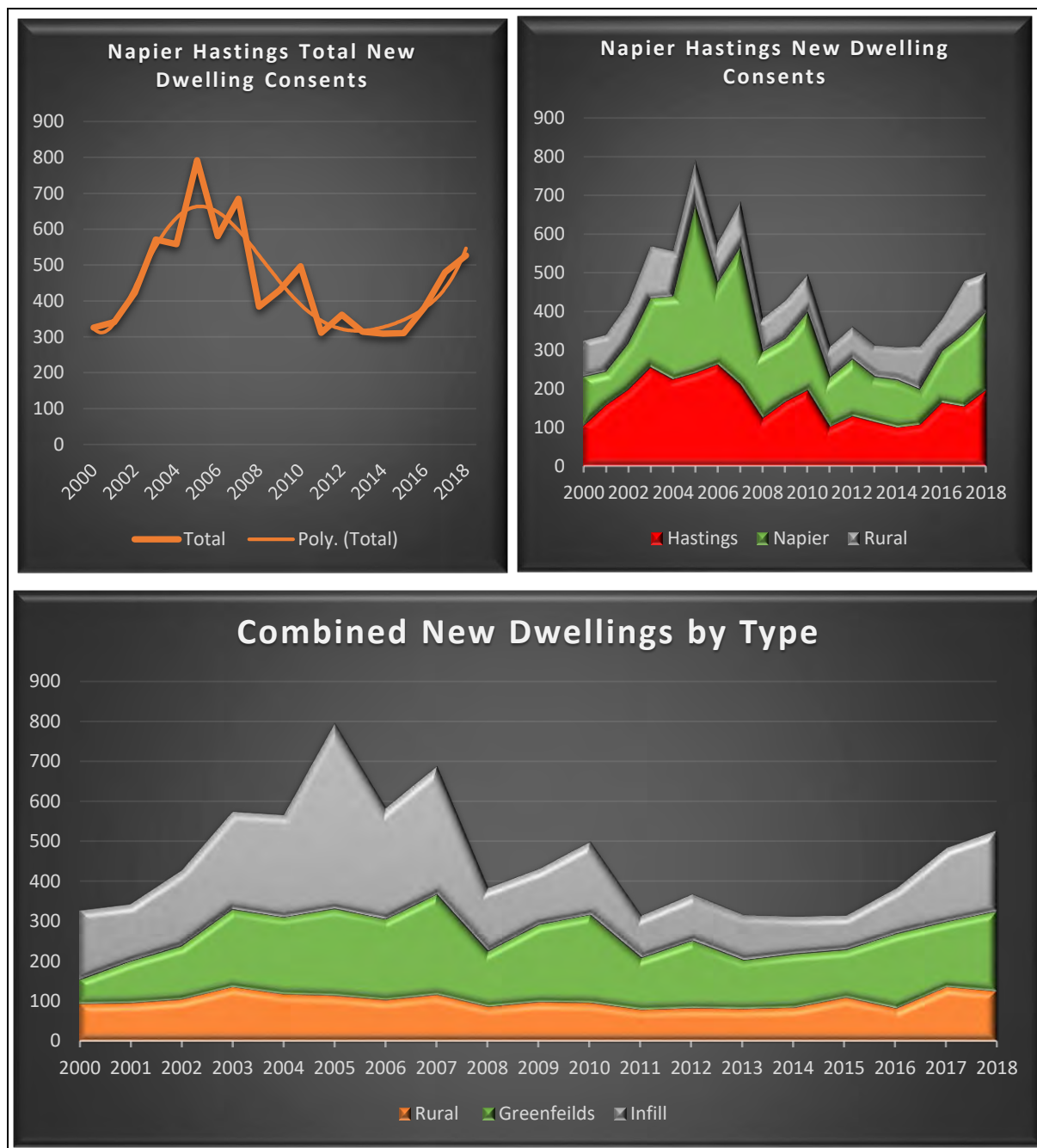


(Source MBIE Dashboard)

6. Building Activity

- 6.1. 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 Global Financial Crisis across all sectors. Rural/lifestyle picked up in 2017 but dropped back slightly in 2018.

Figure 13: Napier Hastings New Dwelling Consents 2000-2018

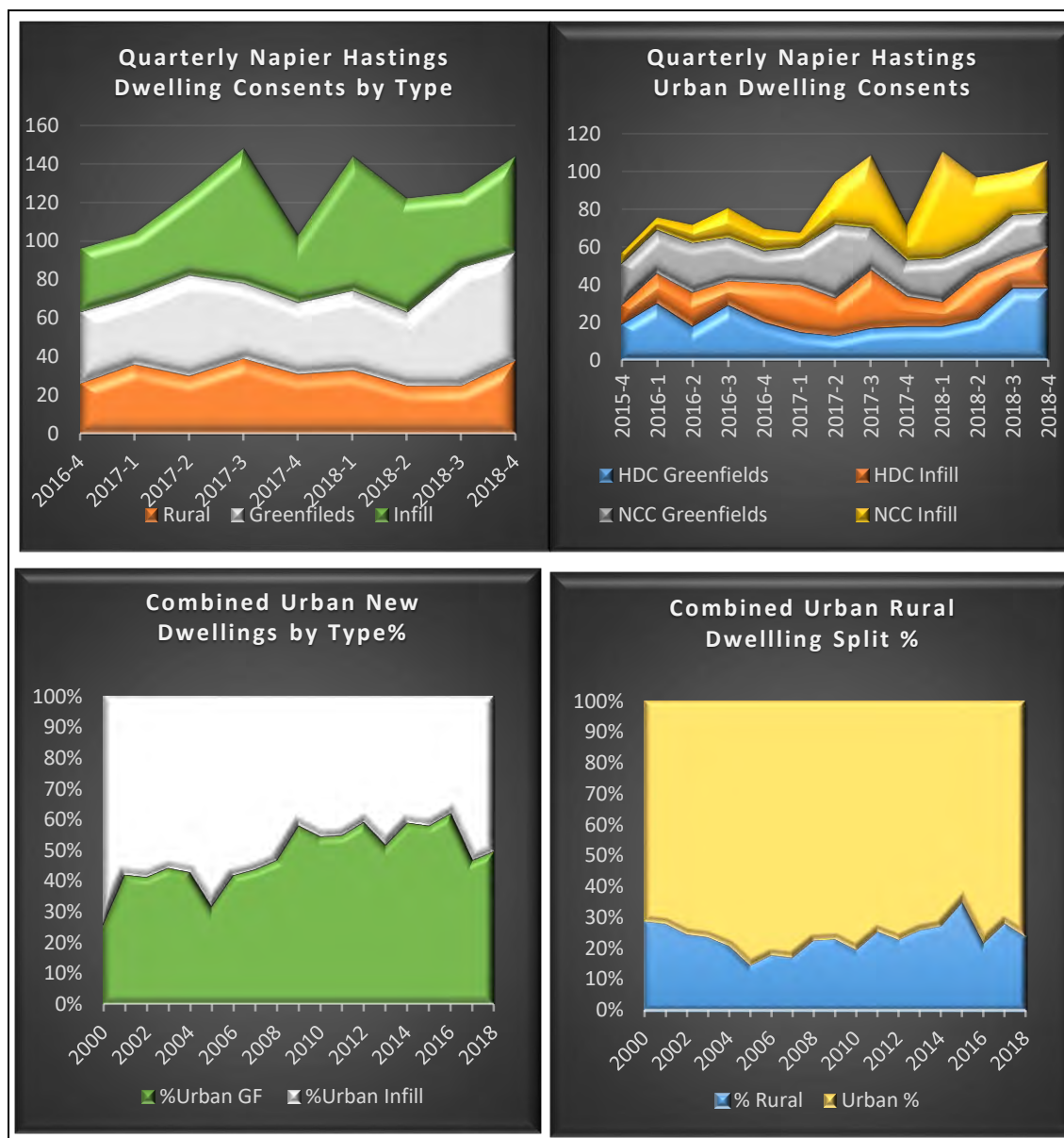


(Source HDC and NCC)

- 6.2. Notably there was a large amount of infill as well as greenfield development during the last property boom (the larger spike in infill in 2005 was largely due to a spate of apartment building in Ahuriri), however greenfield development has dominated urban development then until 2016.

- 6.3. Figure 14 below tracks the same data by quarter over the past three years, split between Hastings and Napier and the overall proportions of greenfields, infill and rural dwellings over time. Greenfield building has increased significantly over the last two quarters of 2018 although the proportion of greenfield relative to infill development have increased since 2008 while rural/lifestyle development has increased slightly over urban.

Figure 14: Napier Hastings New Dwelling Consents by Location Type



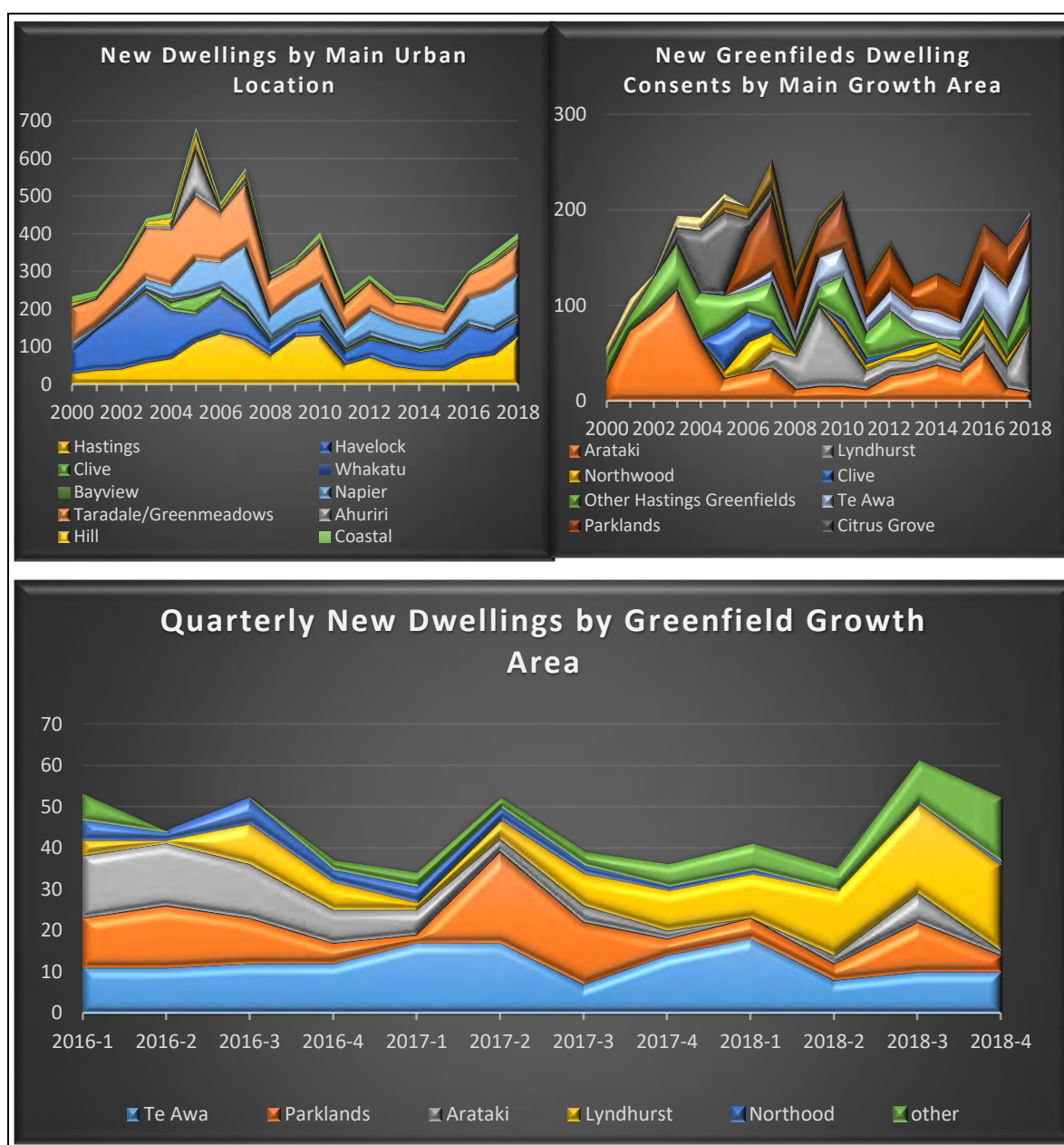
(Source HDC and NCC)

- 6.4. The signs of a resurgence in infill starting to emerge in from 2017 are due to a few larger (greenfield-like) developments in the third quarter of 2017 and first quarter of 2018 in Napier as discussed in section.
- 6.5. 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 saw slight increases toward the end of 2017 turn in to a more significant increase in the second half of 2018. 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.

- 6.6. Figure 15 below shows the early 2000's were characterised by relatively few greenfields growth areas. Increasing greenfield choices came on stream from around 2003-2005, with these areas serving reduced demand from around 2010. The post GFC Greenfield development spike mentioned earlier can be clearly attributed to a surge in development in Lyndhurst and to a lesser extent Parklands.

Figure 15: Napier Hastings New Dwelling Consents 2000-2018 by Location

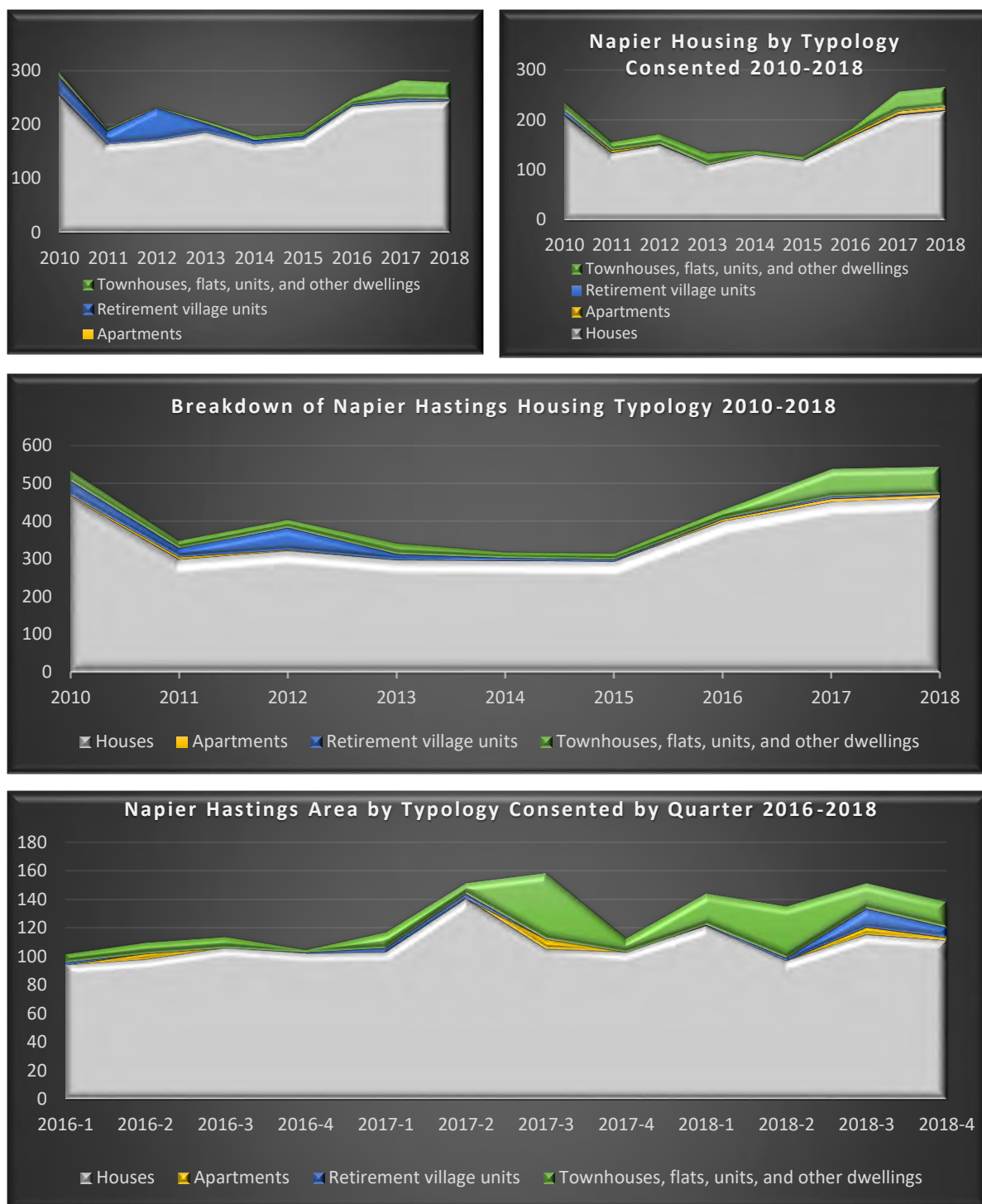


(Source HDC and NCC)

- 6.7. A pinch point in greenfield supply in Hastings with Arataki nearing completion in early 2016, meant nearly half of greenfield development since the end 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 both 2016 and 2017. However 2018 saw Lyndhurst Stage 2 and other smaller Hastings Greenfields offering rebalancing the Hastings/Napier mix.

- 6.8. Figure 16 looks at housing typologies built over the past few decades. These are based on NZStats classifications and 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 1980's and 1990's. There is however, some renewed sign of interest in these formats or modern variants of them in 2017 and 2018 (such as the Frimley Lifestyle Village), possibly due to market support for more affordable dwellings.

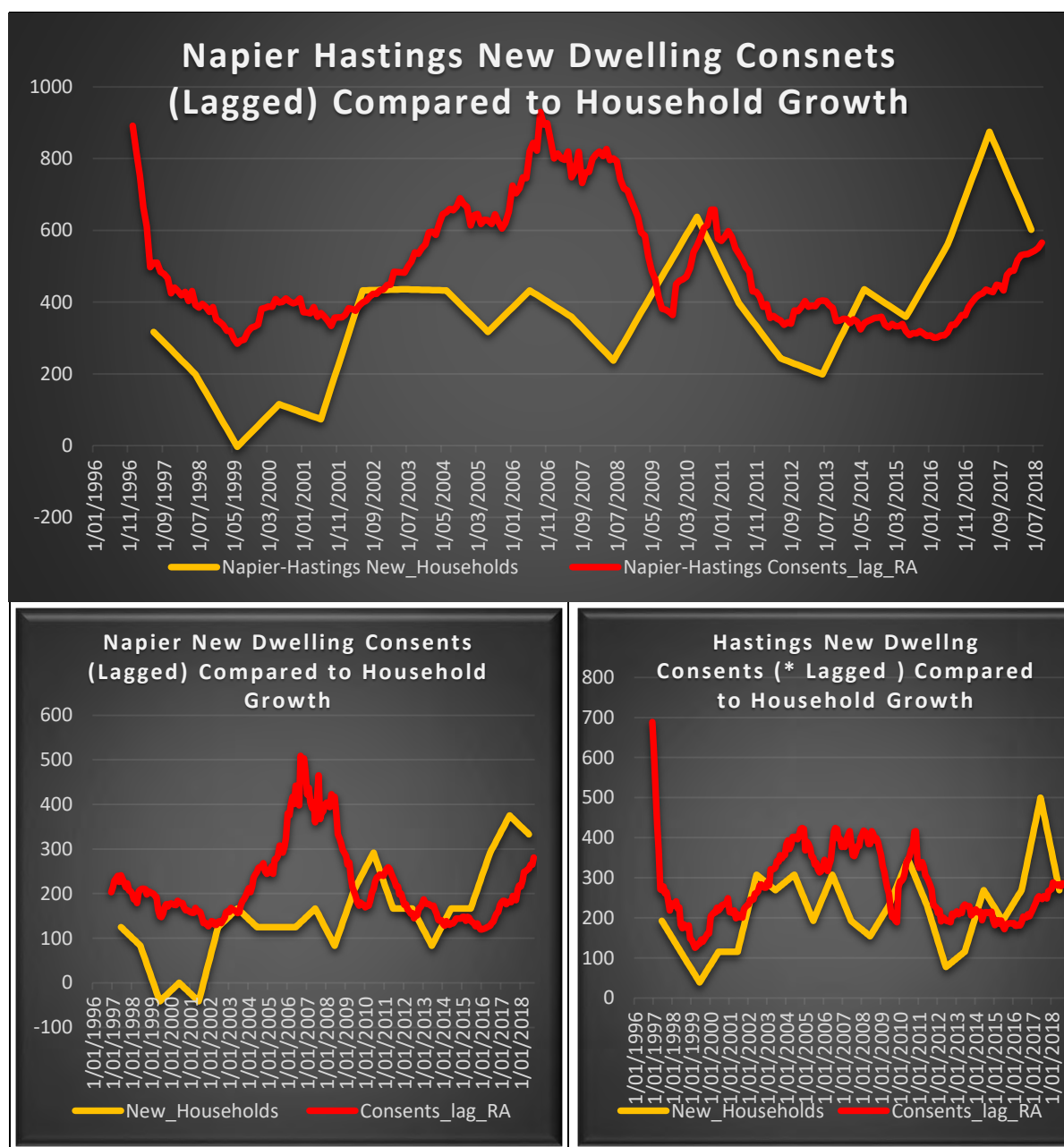
Figure 16: Napier Hastings New Dwelling Consents 2000-2018 by Housing Typology



(Source StatsNZ)

- 6.9. 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, with very little development since, although there are new development in the pipeline.
- 6.10. Figure 17 tracks new dwelling consents lagged by six months to approximate completions against new household growth³. 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 1996-2018



(Source MBIE Dashboard)

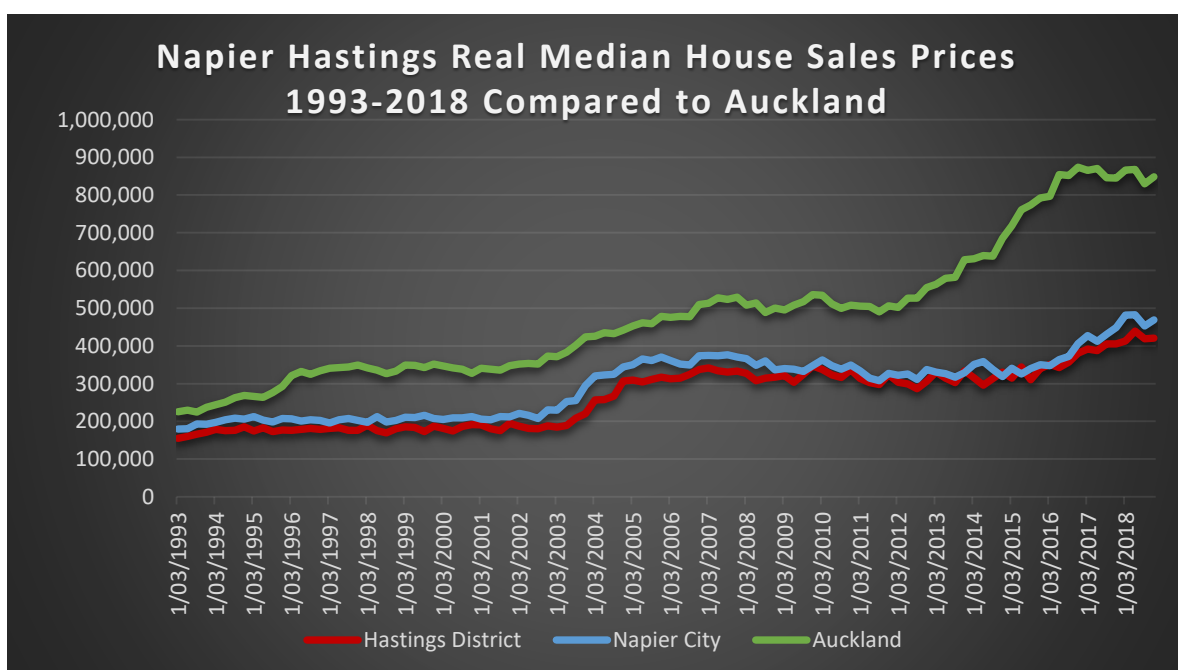
³ 2017 and 2018 figures estimated from NZStats Population Annual Estimates, by dividing by the assumed household occupancy rates

- 6.11. 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 risen significantly off the back of record in-migration from overseas and/or anecdotally from displacement of buyers from other parts of the country experiencing significant house price rises.
- 6.12. In both cases it appears that a backlog of under provision in housing from around the mid 1990's against a backdrop of low inwards migration, was part of the reason for the high rate of construction from 2002 as the country came out of a period of high inflation and interest rates. That appears to have been more marked in Napier from around 2005, largely because a shortage of greenfield land supply prior to that, while Hastings at least had some areas available around Havelock North and to a lesser extent Flaxmere.
- 6.13. Population Estimates for 2018 suggest the 2016-2017 influx of households may be temporary and that while there may have been something of supply squeeze, over the last two years housing supply over the medium term has kept up with household growth. if inwards migration to the region does remain strong then it will be important to ensure planned land supply releases are able to be advanced.

7. House Prices /Sales Activity

- 7.1. 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 and household (immigration) growth.

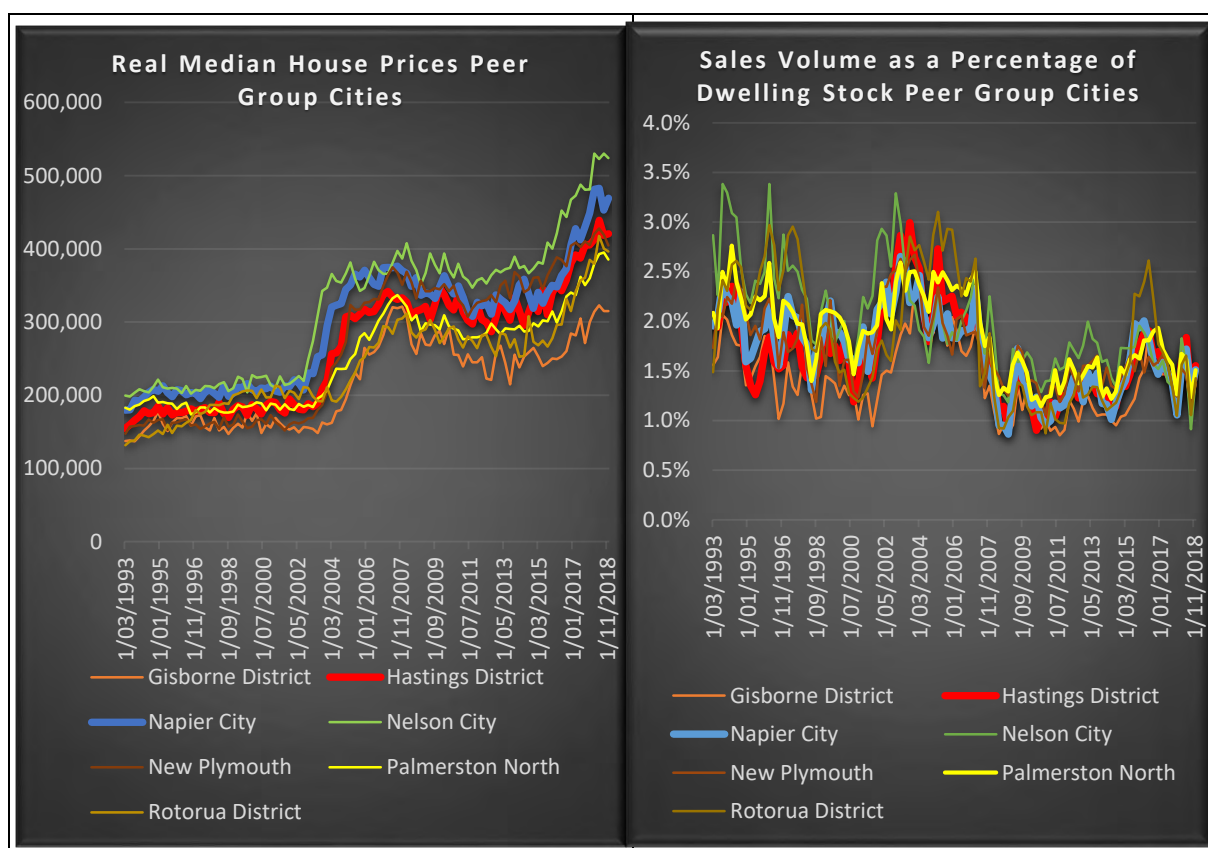
Figure 18: Napier Hastings 12 Month Rolling House Prices Compared with Auckland



(Source MBIE Dashboard)

- 7.2. 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. Interestingly residential property turnover was as high in the early mid 1990's as it was during the last property cycle high in 2005, despite very high interest rates, and a recessionary economy, with low immigration rates. By comparison turnover since 2009 has been relatively low, even with the economic cycle picking up form around 2014. This suggests that sales volumes and prices are not strongly linked.

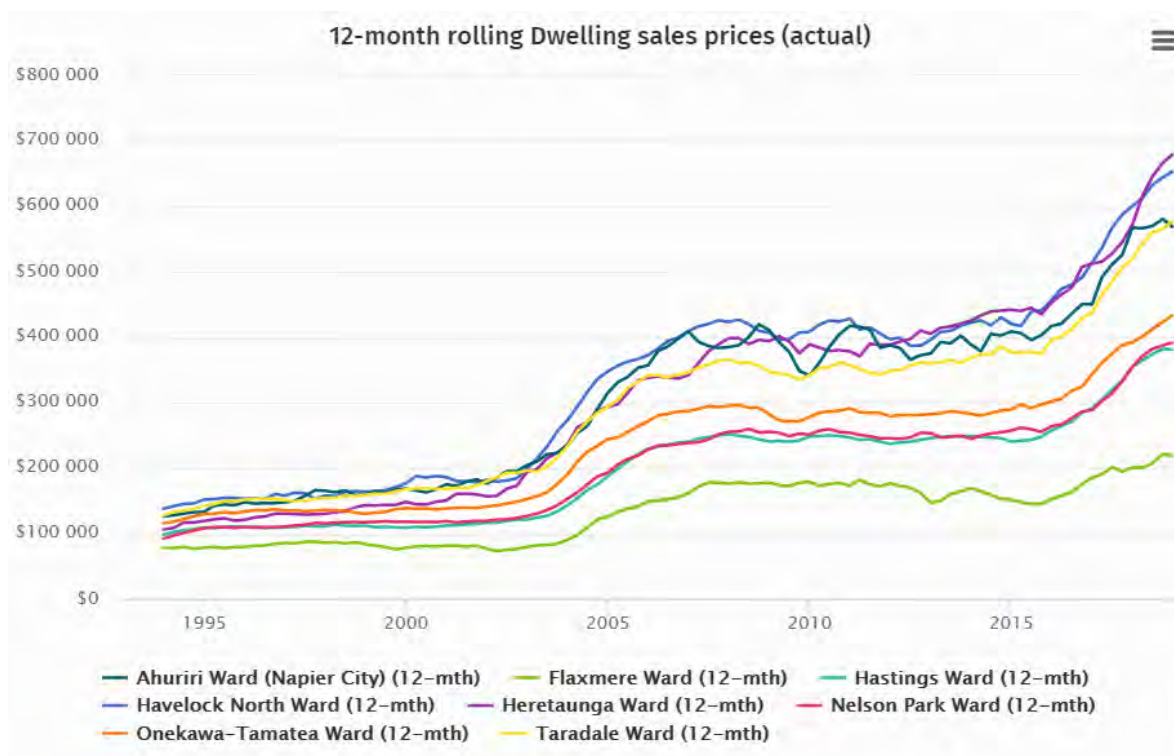
Figure 19: Napier Hastings Sales Activity and Prices Compared to Peer Group 1994-2018



(Source MBIE Dashboard)

- 7.3. 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. The relatively high trend in the Heretaunga Ward is likely partly reflective of the influence of new greenfield subdivisions developments, while a lack of section supply in Havelock North from 2016 may have had some effect on prices there in the face of increased demand from Auckland buyers existing that market.

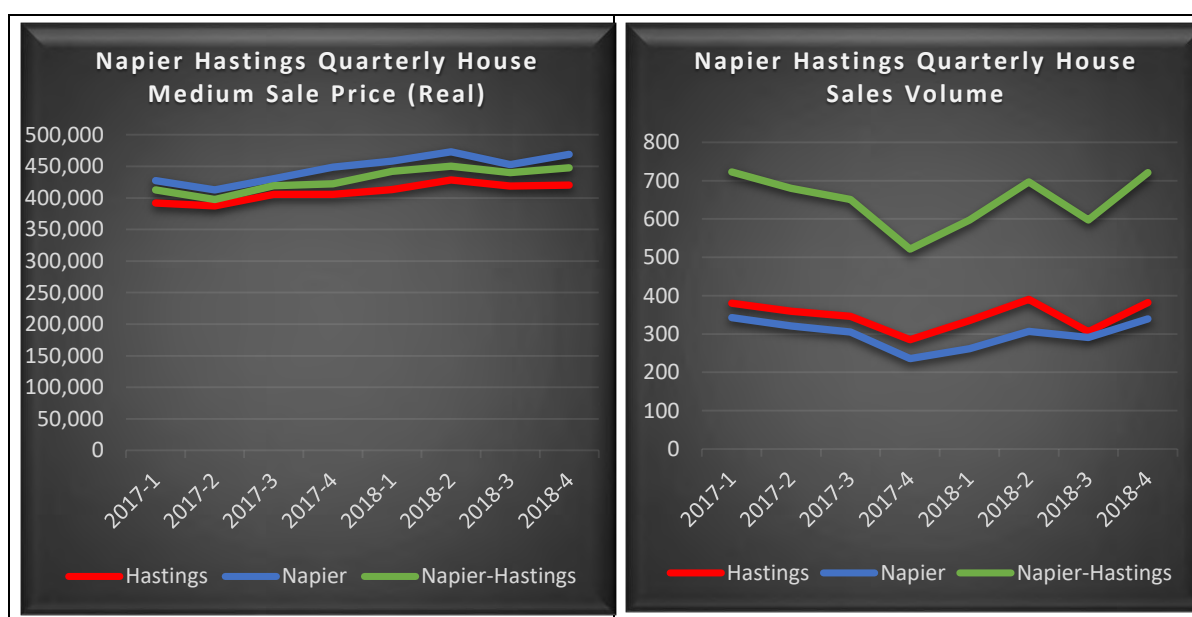
Figure 20: 12 Month Rolling Dwelling Sales Prices for Selected Locations



(Source MBIE Dashboard)

- 7.4. Figure 21 below shows the median sales price and sales volume for Napier and Hastings per quarter for the past two years. This shows a fluctuating but overall steady level of sales volume accompanied by a steady rise in prices. This gain suggests that sales volume and prices are not strongly linked.

Figure 21: Napier Hastings Quarterly House Sales Volume and Prices

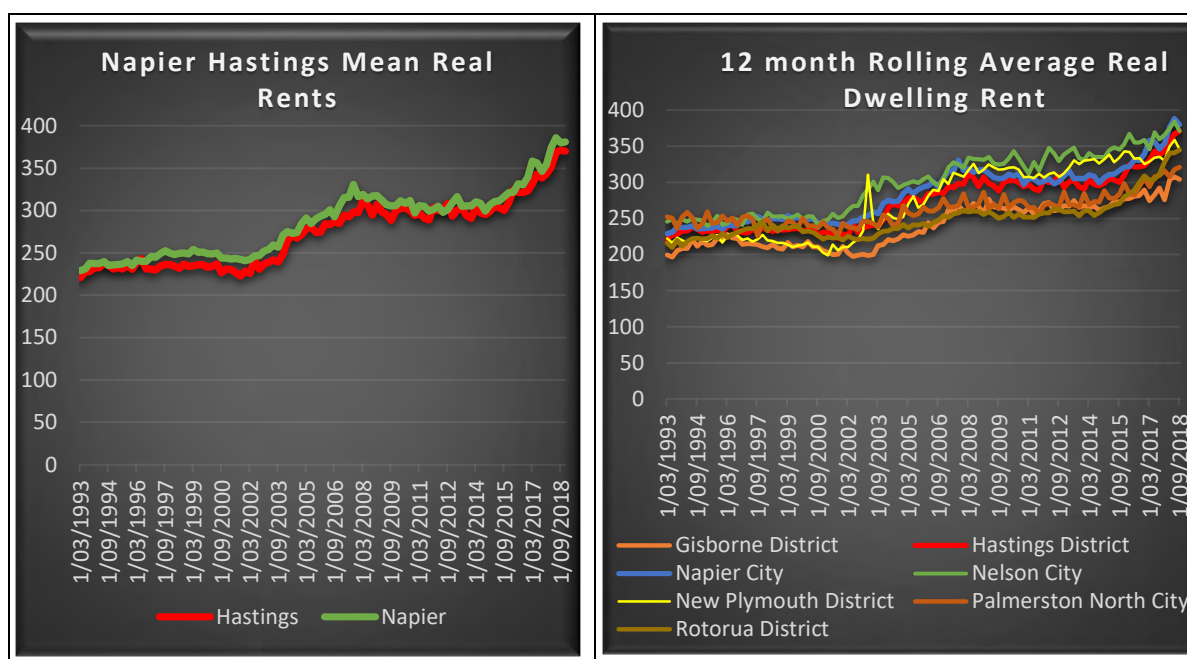


(Source MBIE)

- 7.5. 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, but at a faster pace for Hastings and Napier than the peer group cities (with the exception of Palmerston North).

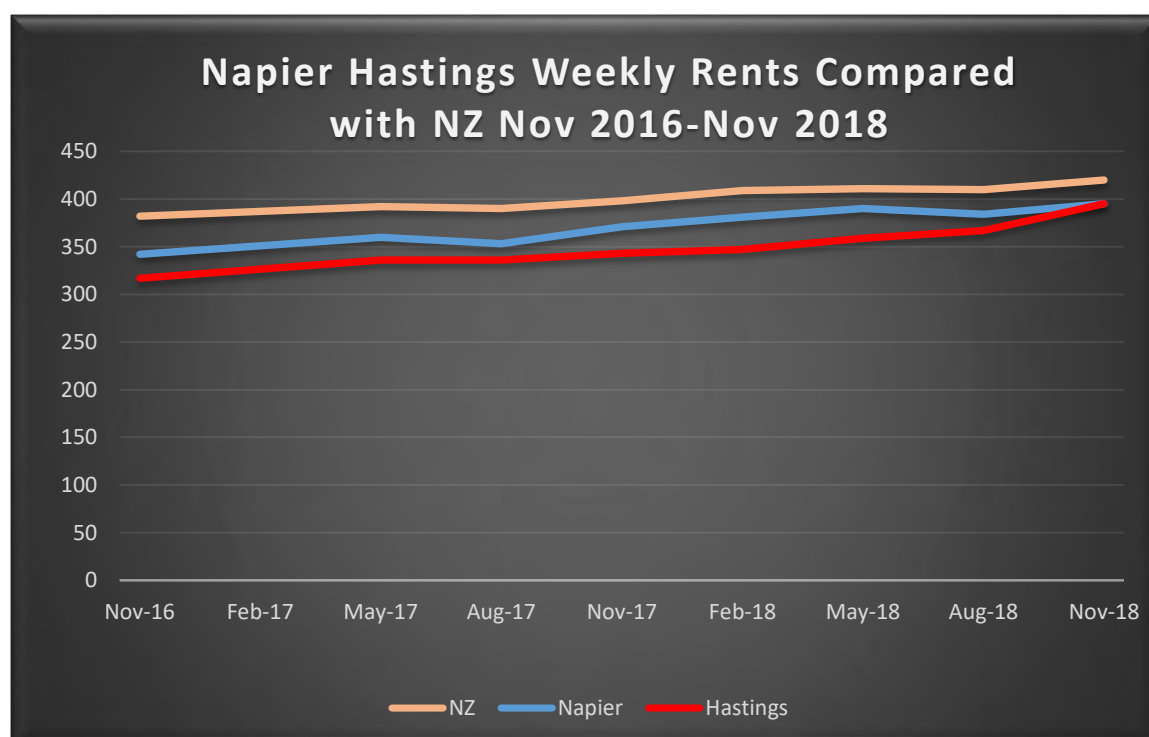
The more recent trends shown in Figure 23 show a continuation of this trends from 2016. Like house prices, median rents were slightly higher in Napier than Hastings but that gap closed in 2018.

Figure 22: Napier Hastings 12 Month Rolling Median Dwelling Rents



(Source MBIE Dashboard)

Figure 23: Napier Hastings Monthly Average Rental Movements 2016-2018

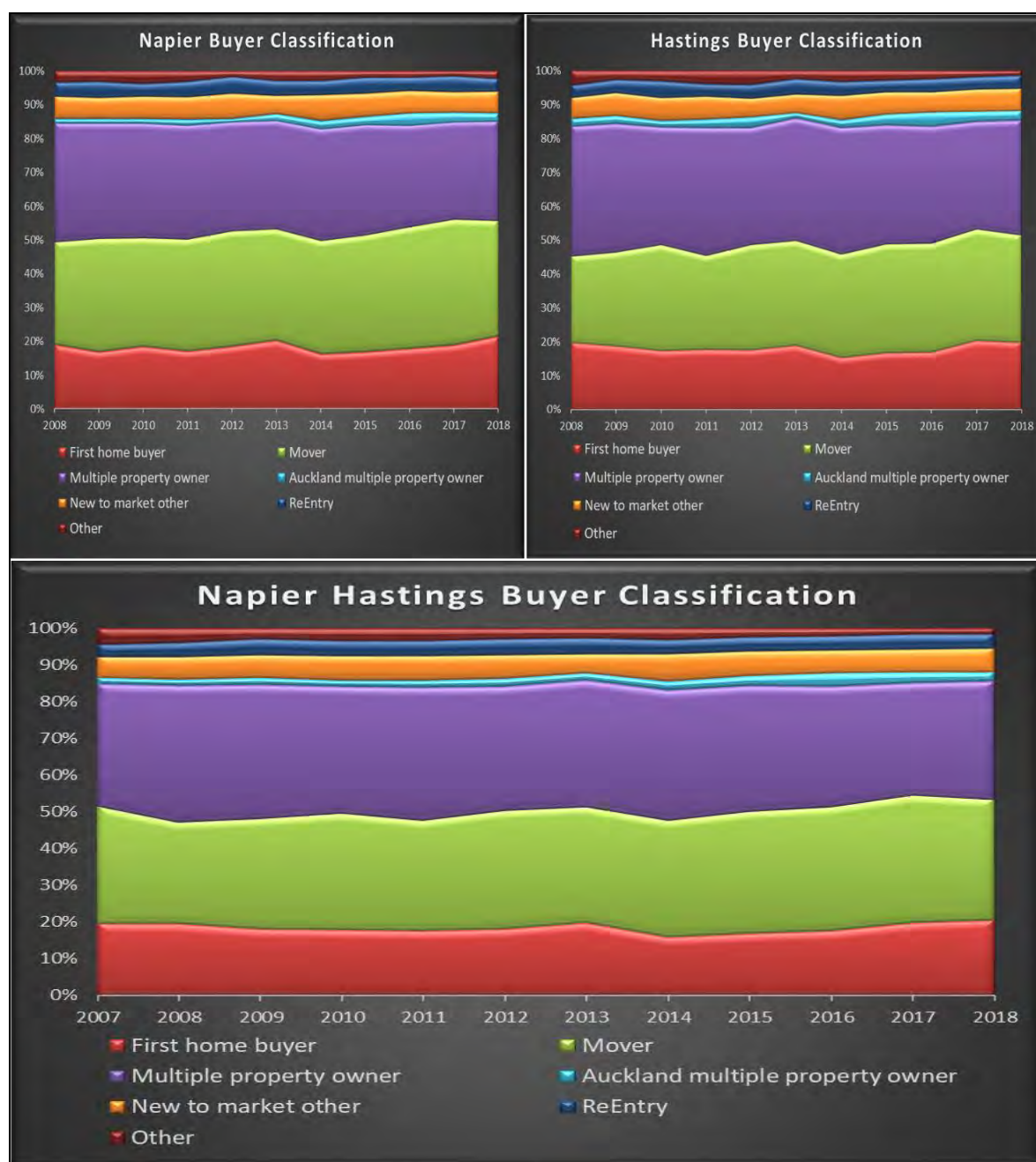


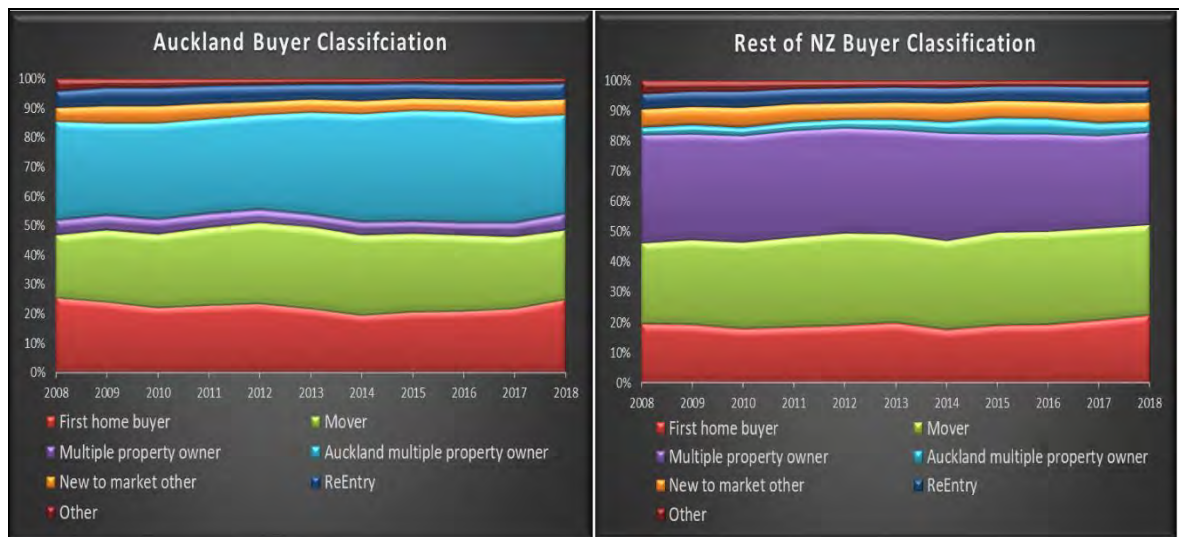
(Source Massey University)

- 7.6. These trends have mirrored to some extent the rise in household growth from 2016, and 2017 in particular, suggesting migration to the regions is likely to be a key driver of both rent and house price movements.

- 7.7. Figure 24 shows the proportion of buyer types prevalent in the market overtime and again these are relatively consistent between Hastings and Napier, and 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. Since 2014 the proportion of first home buyers and movers has increased at the expense of investors, suggesting household growth into the region is driving house price movements. Over the past twelve months however, the proportion in first home buyers and movers in Hastings has fallen back in favour of multiple property owners, but not from Auckland. This is against the trend in Napier, Auckland and the rest of New Zealand.

Figure 24: Napier Hastings House Buyer Classification 2008-2018 with Auckland and Rest of New Zealand Comparisons

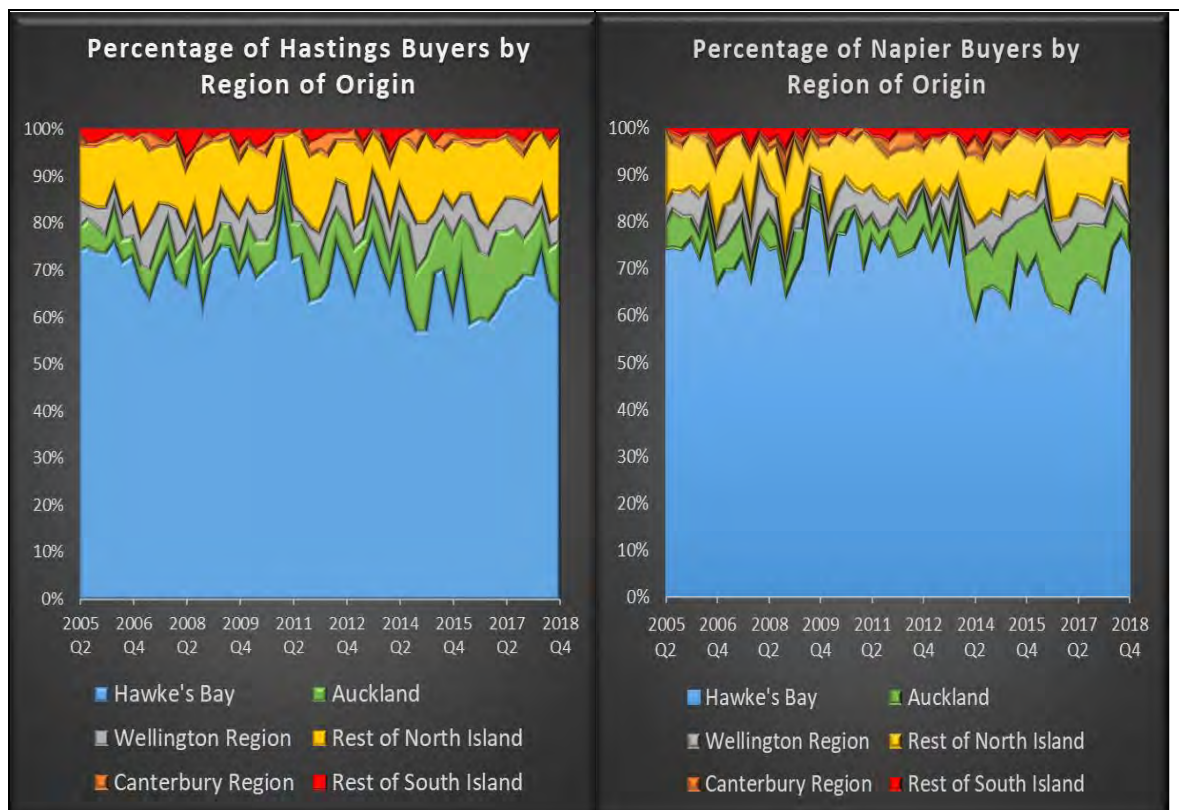




(Source Core-logic)

- 7.8. 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. Buyers from Wellington and the rest of the North Island average close to 20% by comparison. The first part of 2018 saw fewer Auckland buyers in Hastings, but that rebounded by the end of the year, while the reverse was true in Napier. Overall however Auckland buyers seem to represent only around 10% of current buyers or around an extra 120-130 buyers in each city over pre 2014 levels. It remains to be seen whether the cooling of the Auckland market will eventually reduce pressure on the regions.

Figure 25: Origin of Buyers Purchasing Property in Napier Hastings 2005-2018

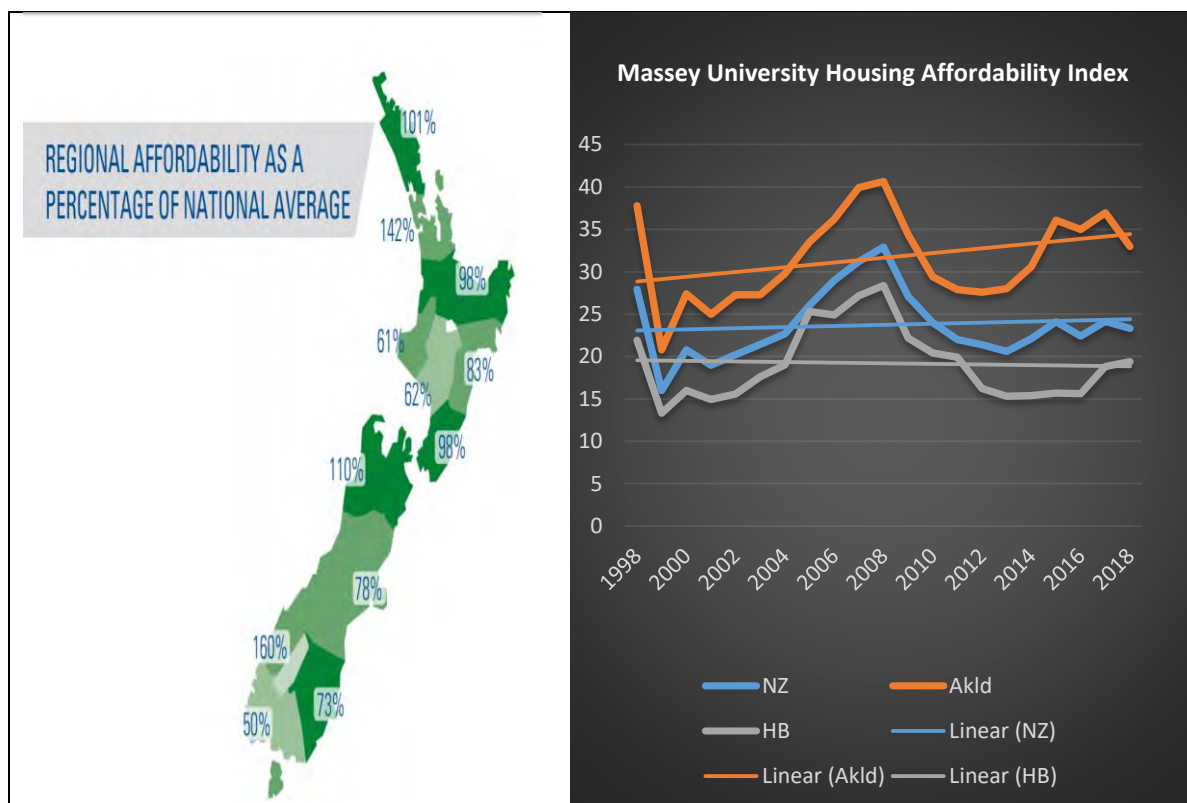


(Source Core-Logic)

8. Housing Affordability

- 8.1. 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 19984 to 2018, while Table 4 compares HB with the other New Zealand Regions since 2018.

Figure 26: Hawke's Bay Massey University Housing Affordability Index 1998-2018



(Source Massey University)

- 8.2. Housing affordability deteriorate from 2016 to 2017, but this stabilised in 2018. Although it has deteriorated slightly over the last three months, Hawke's Bay's position relative to other regions has stayed steady at 5th most affordable. Interestingly Auckland Housing affordability, widely thought to be influencing migration into the regions and therefore housing affordability there, improved significantly over 2018.

⁴ Mortgage Interest rates were up around 18-20% around the late 1990's

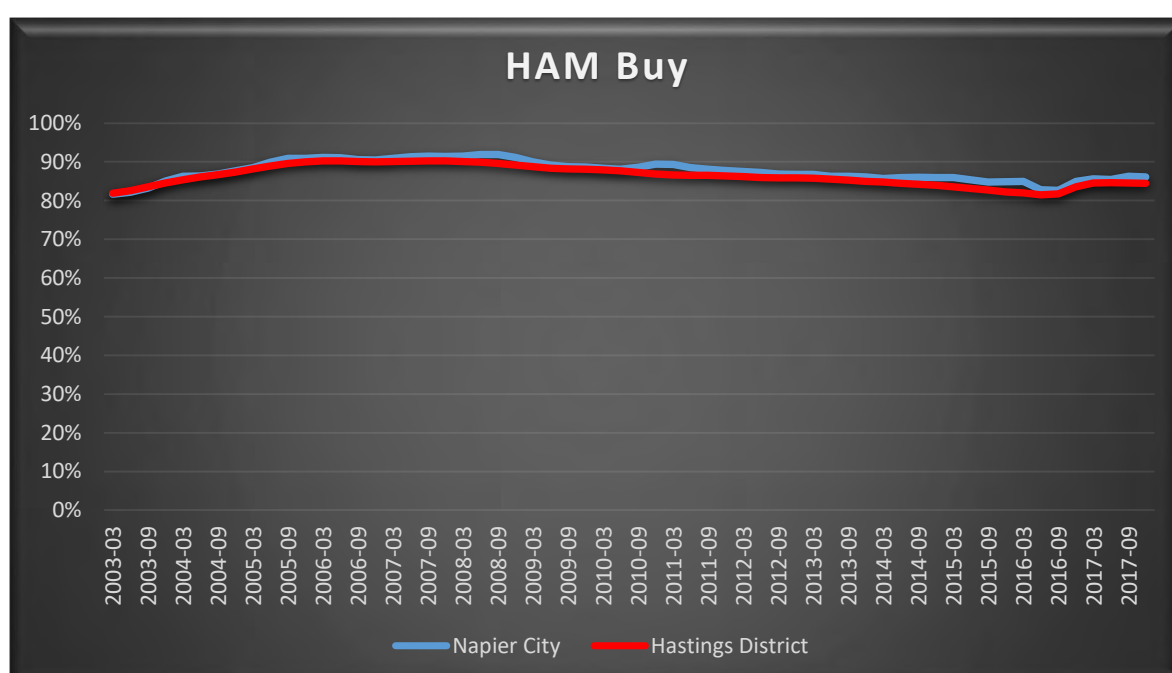
Table 4 Massey University Home Affordability Index Regional Comparison Nov 2017-Nov 2018

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 2017	August 2018	November 2018	Improvement	Decline	Improvement	Decline
Northland	20.3	21.2	23.6		16.1%		11.4%
Auckland	35.7	33.3	33.0	7.5%		0.8%	
Waikato/Bay of Plenty	23.3	23.3	22.8	1.9%		2.1%	
Hawke's Bay	18.2	18.1	19.4		6.8%		7.3%
Taranaki	14.8	12.8	14.2	4.1%			10.4%
Manawatu/Whanganui	14.1	14.3	14.4		1.9%		0.7%
Wellington	21.7	22.3	22.9		5.2%		2.4%
Nelson/Marlborough	23.4	25.1	25.7		9.6%		2.2%
Canterbury/Westland	20.2	18.0	18.3	9.3%			1.6%
Otago	15.9	16.4	17.1		8.1%		4.5%
Central Otago Lakes	39.5	34.3	37.4	5.3%			9.2%
Southland	12.1	10.3	11.7	3.1%			13.9%
New Zealand	23.4	22.8	23.3	0.1%			2.2%

(Source Massey University)

- 8.3. 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 i.e. improving, but heading back up in 2017 consistent with the peer group cities as shown in Figure 28 below.

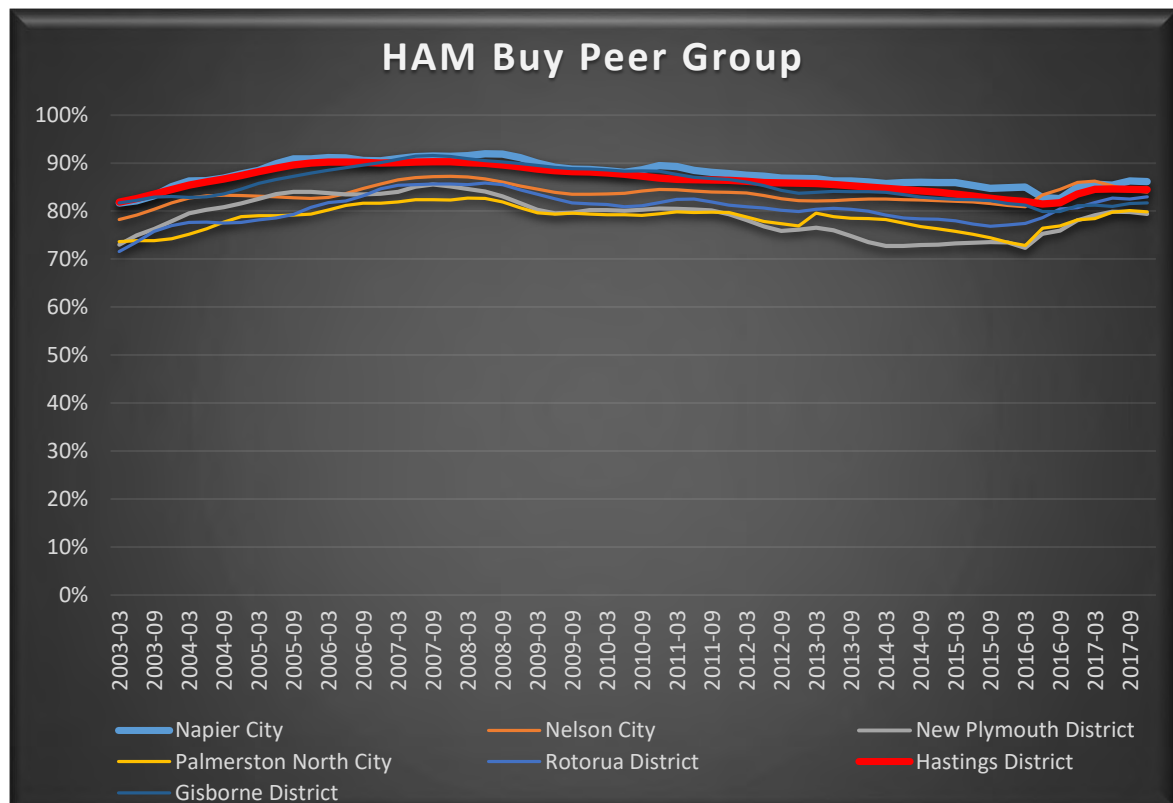
Figure 27: Napier Hastings HAM First Home Buyer Affordability Measure 2003- 2016



(Source MBIE Dashboard)

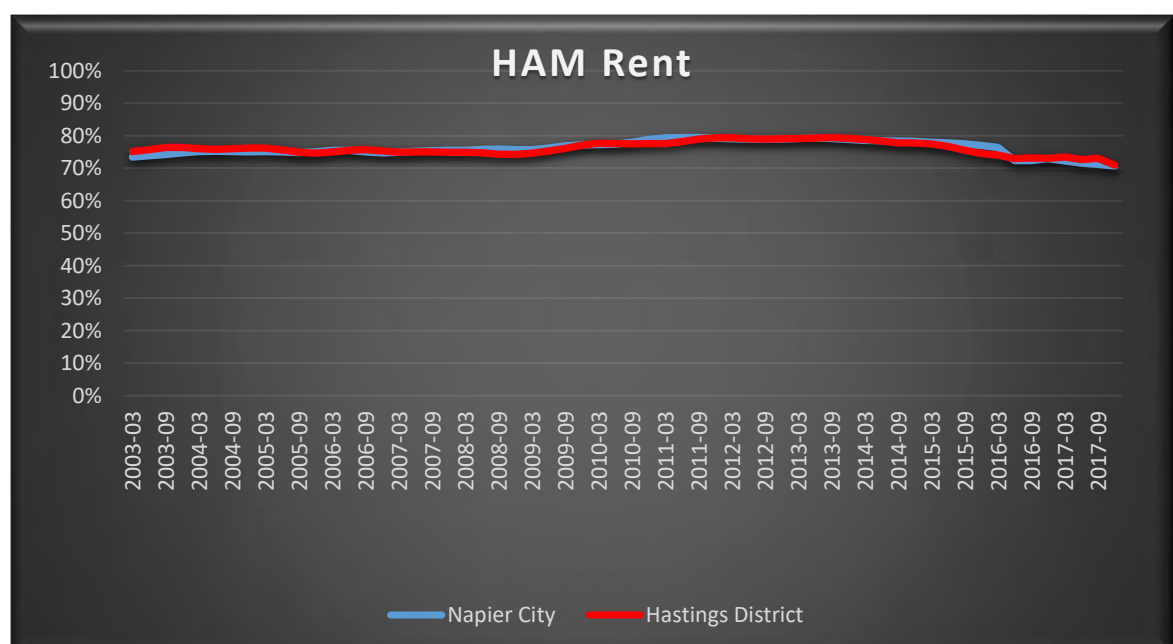
- 8.4. Looking at the peer group results shown in Figure 28 we also see that Hawke's Bay is amongst the least affordable for first home buyers along with Gisborne, and more recently Nelson which has shown rapid house price movements over the last 12-18 months.

Figure 28: HAM First Home Buyer Affordability Peer Group Comparison 2018



- 8.5. Figure 29 shows the percentage of renters with below average disposable income after household rents, so a lower number indicates better affordability.

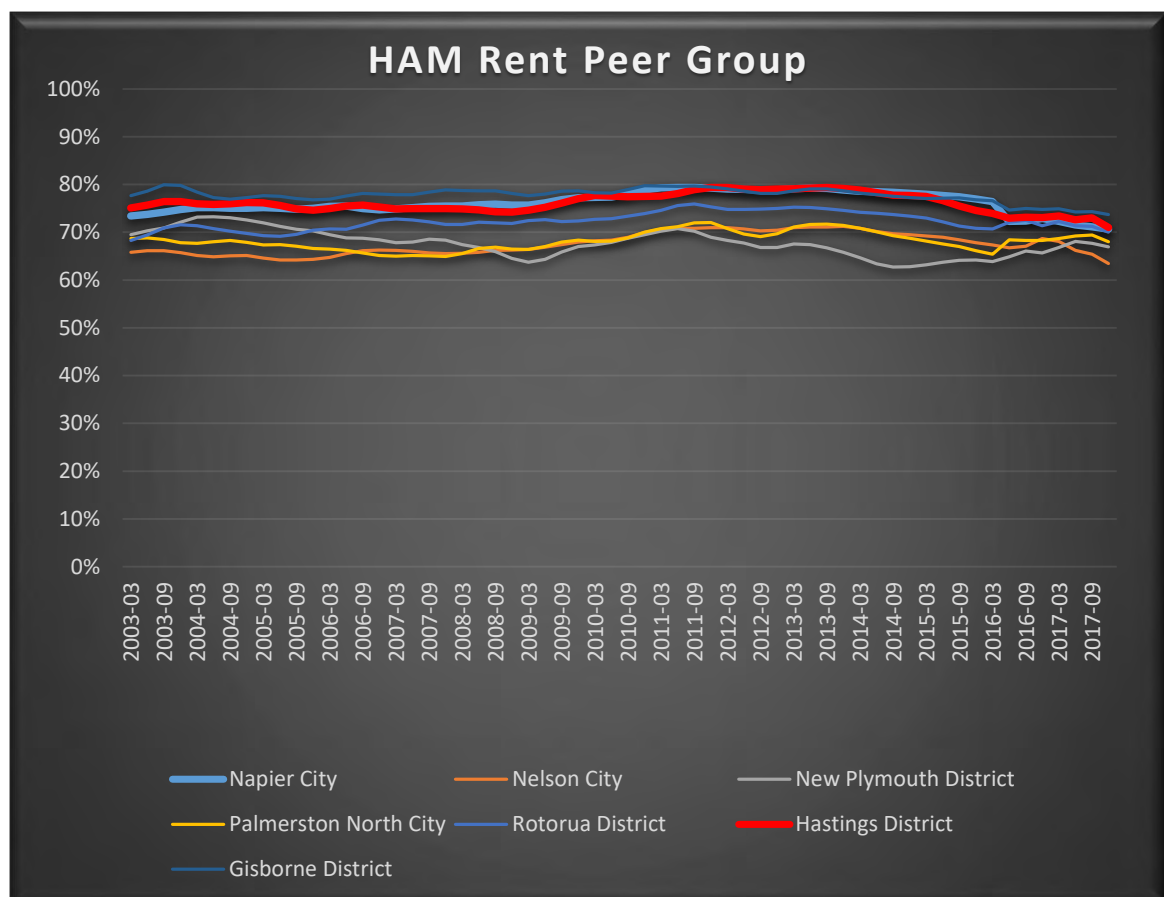
Figure 29: Napier Hastings HAM Rental Affordability Measure 2018



(Source MBIE Dashboard)

- 8.6. Rental affordability deteriorated from 2008 to 2016, but surprisingly, against the HAM buy statistic and increasing rents, rental affordability actually improved. This suggests that incomes rose more quickly than rents, while house prices rose more quickly than income for first home buyers.
- 8.7. Figure 30 shows the peer group results for the HAM Rent measure. This shows that the Napier Hastings trend from 2016 is against the Peer Group trend, which potentially indicates the local economy is flowing into higher wages locally, but also that rents are lagging house prices and may yet flow through into rental affordability reversing the income gains.

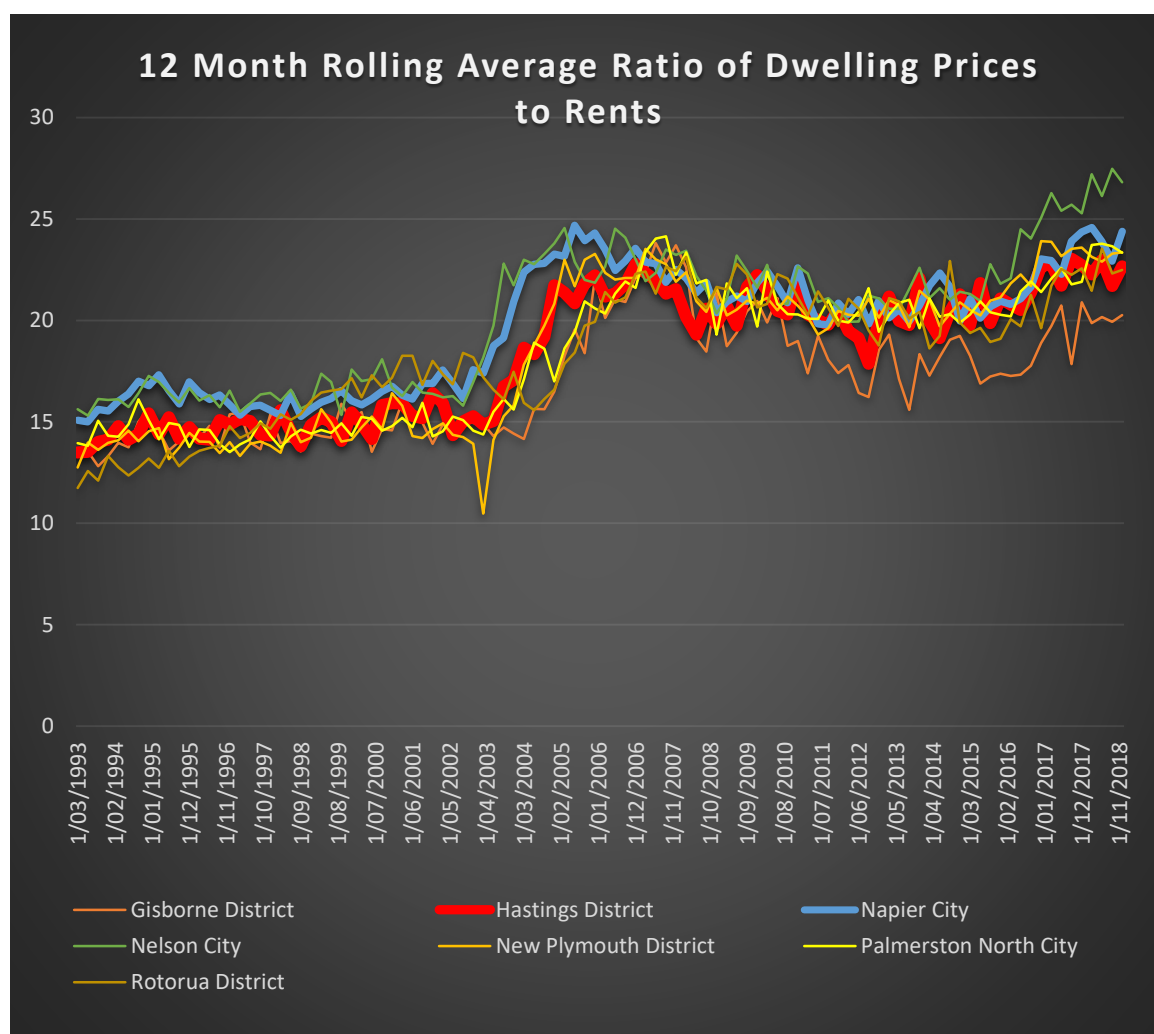
Figure 30: Napier Hastings HAM Rental Affordability Peer Group Comparison



(Source MBIE Dashboard)

- 8.8. Figure 31 which shows the ratio of rents to house prices for the peer group cities. Where house prices are tracking up relative to rents creating a bigger jump to home ownership having never fully recovered from the step change from the last property cycle, except for the benefit of extremely low interest rates.
- 8.9. Of concern with the trend shown in Figure 31 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 in the near term.

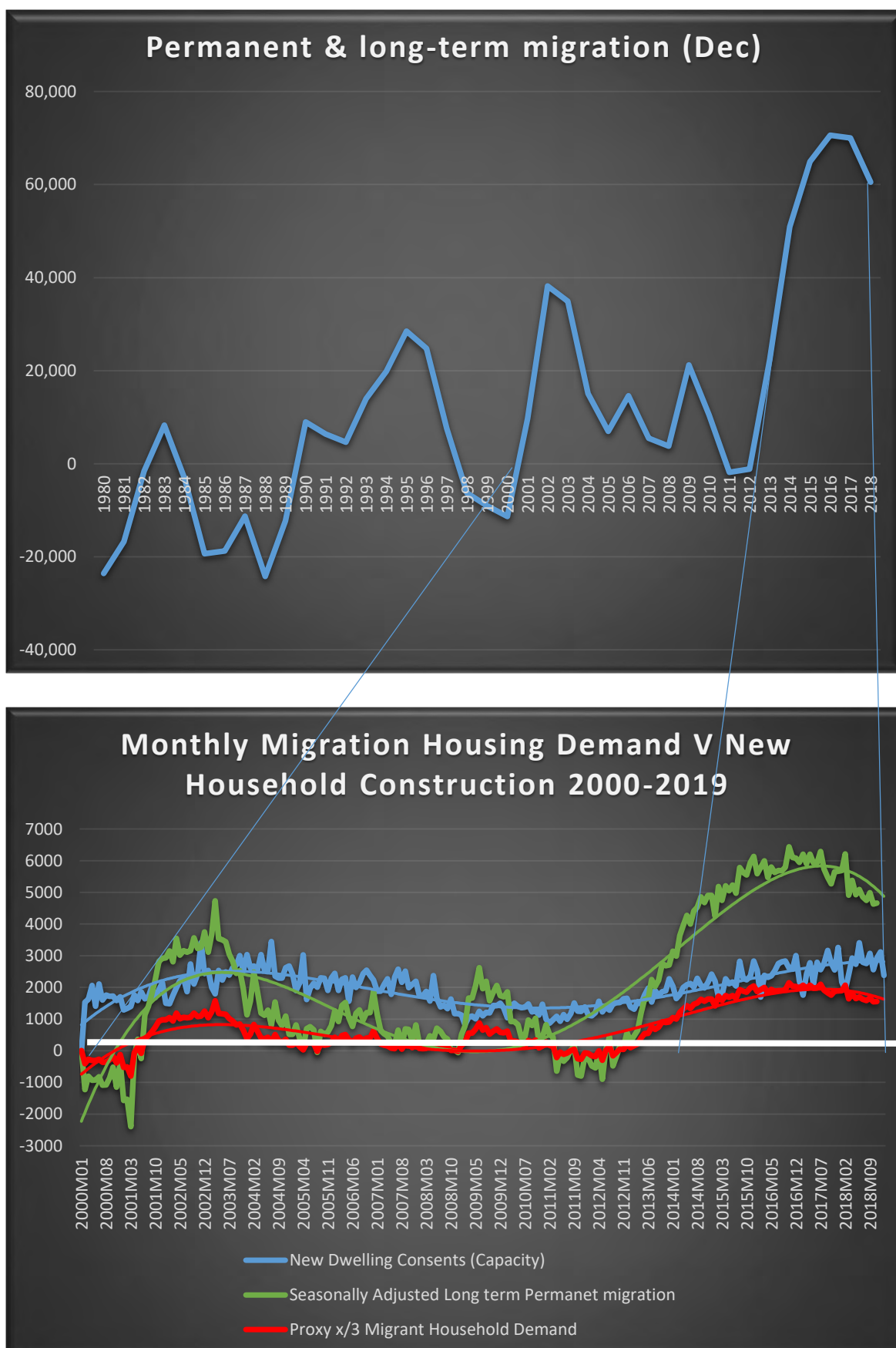
Figure 31: Peer Group Cities 12 Month Rolling Ratio of Dwelling Sales Prices to Rents



(Source MBIE Dashboard)

- 8.10. While overall home affordability in the region still sits well relative to the rest of New Zealand, it is worsened as house prices rose quickly on the back of net migration which started exceeding previous highs from the end 2013 as Figure 32 shows, a buoyant local economy, and some pinch points in residential land supply, resulting in rapid price movements over the last two years. Traditionally 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 Net Migration 1980-2018

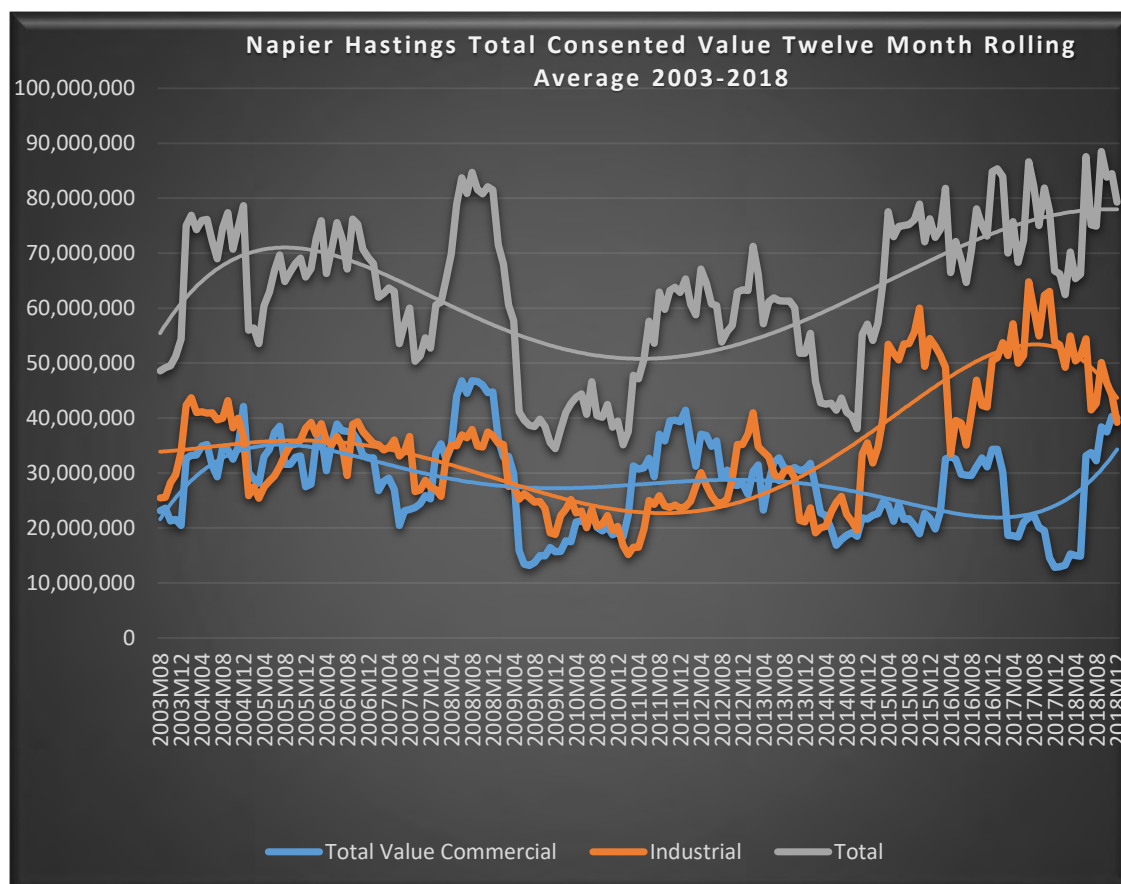


(Source StatsNZ and adapted for use here)

9. Business Building Activity

- 9.1. 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 2016-2017 but falling away in 2018. Commercial construction values have remained steady since 2005 but picked up in 2018 with some significant government and health sector projects coming to fruition.

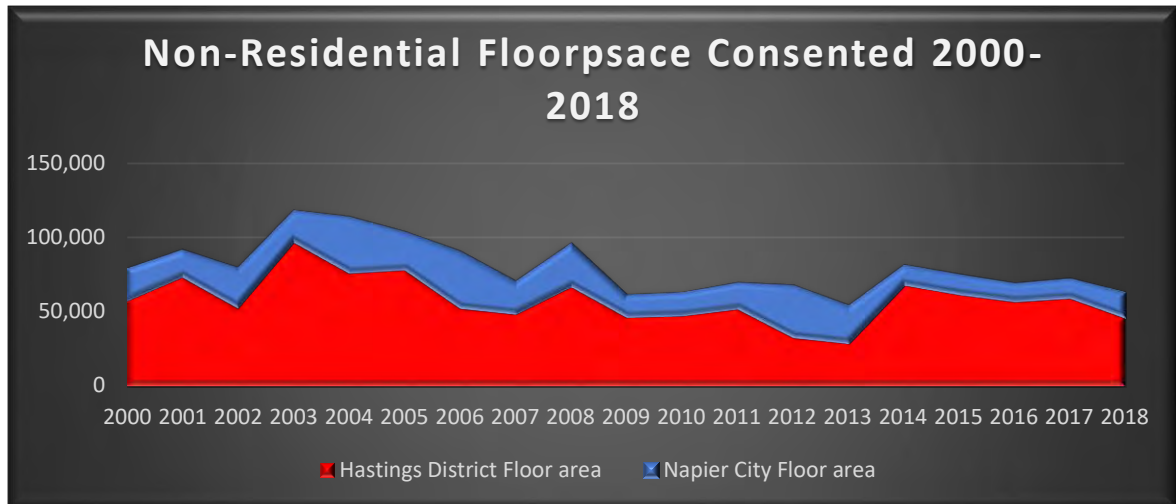
Figure 33: Twelve Monthly Rolling Building Consent Values for Napier Hastings Commercial and Industrial Buildings 2003-2018



(Source StatsNZ)

- 9.2. While consented industrial value has increased from around 2014-2017, Figure 34 shows that the total non-residential floorpace consented since 2000 for Hastings and Napier has been more subdued overall. The Hastings figures do show an increase of approximately 50% from around 2014, but less than a previous spike in experienced 2003.

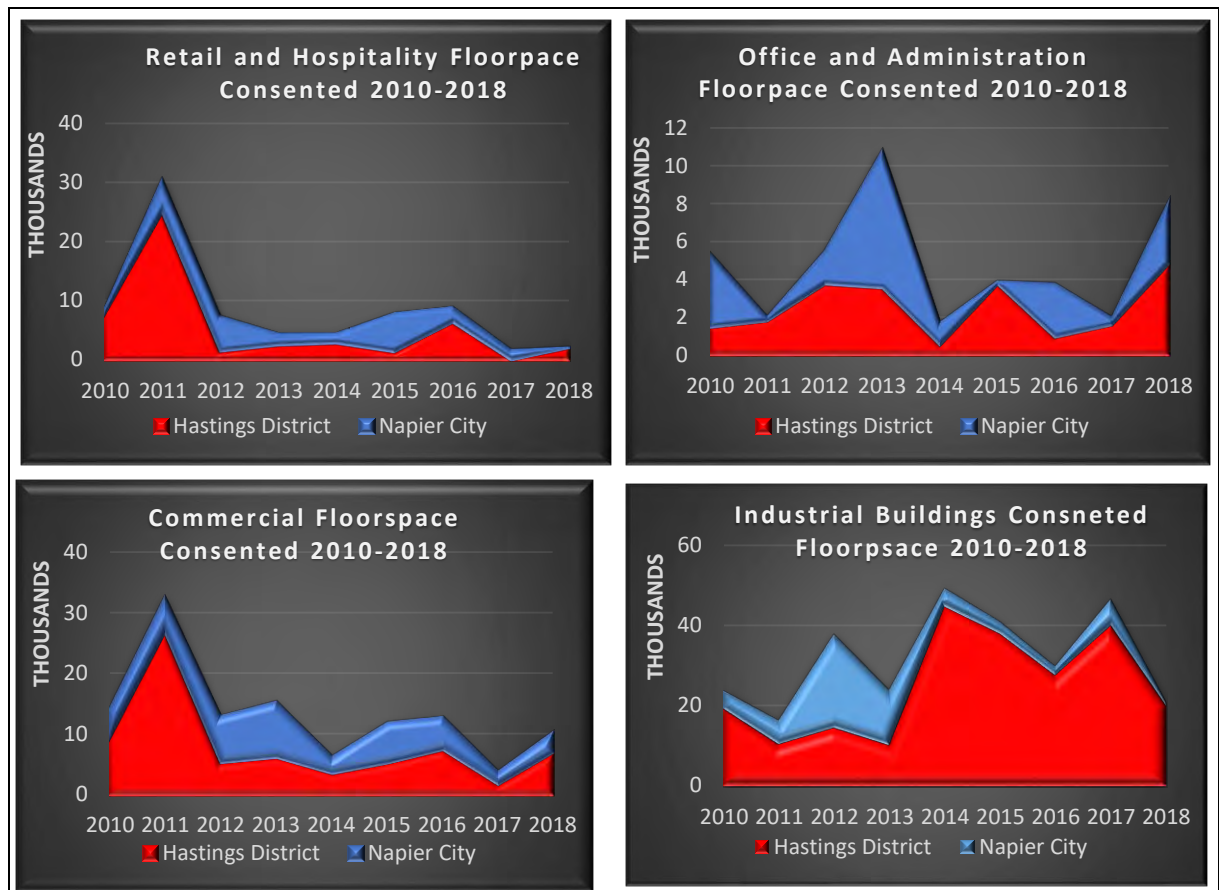
Figure 34: Napier Hastings Non Residential Floorspace Consented 2000-2018



(Source StatsNZ)

- 9.3. Figure 35 breaks this down into industrial, retail and office floorspace from 2010 by both Hastings and Napier and combined area. This shows the peaky 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.

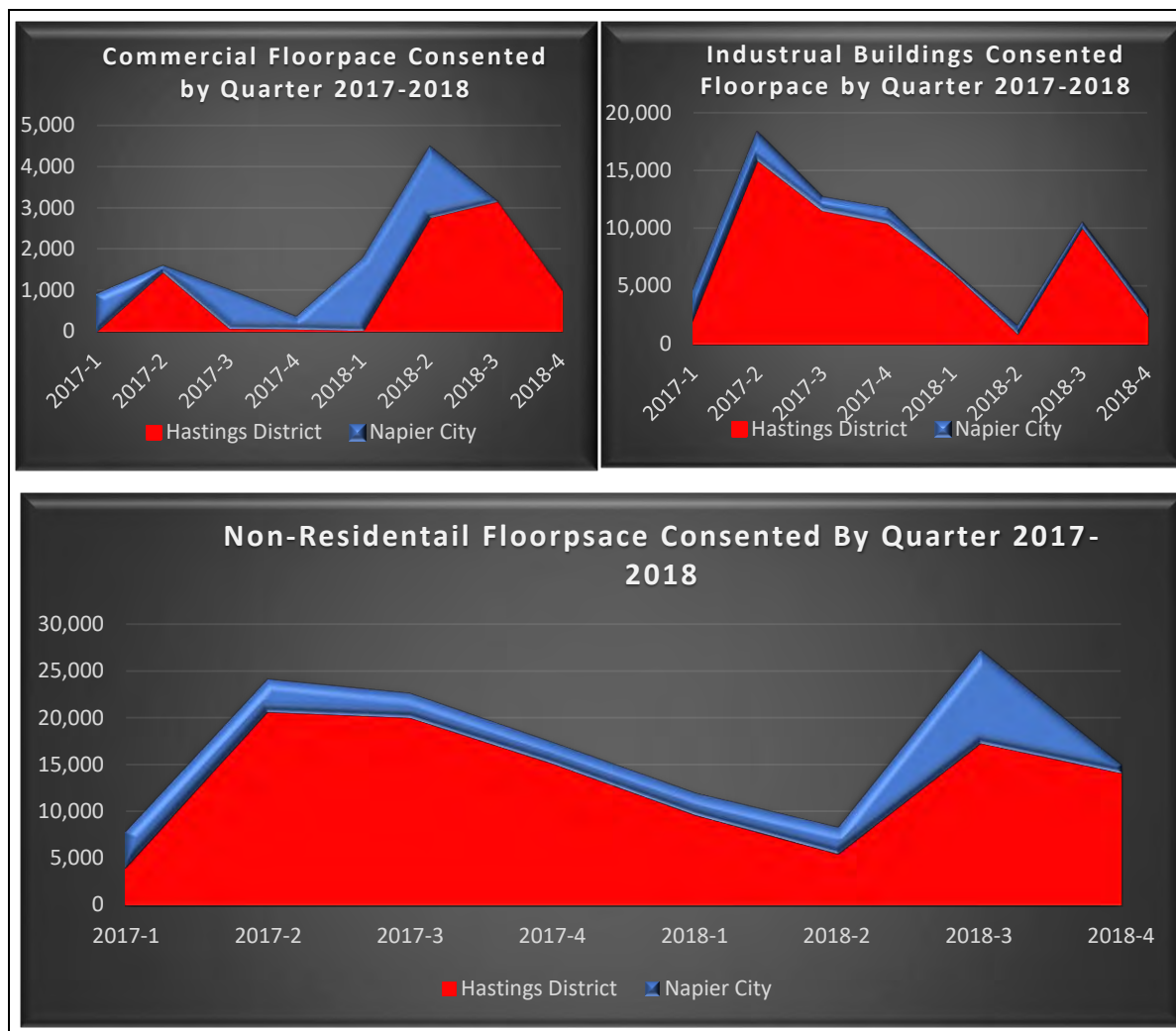
Figure 35: Napier Hastings Industrial and Commercial Floorspace Consented 2010-2018



(Source StatsNZ)

- 9.4. 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)

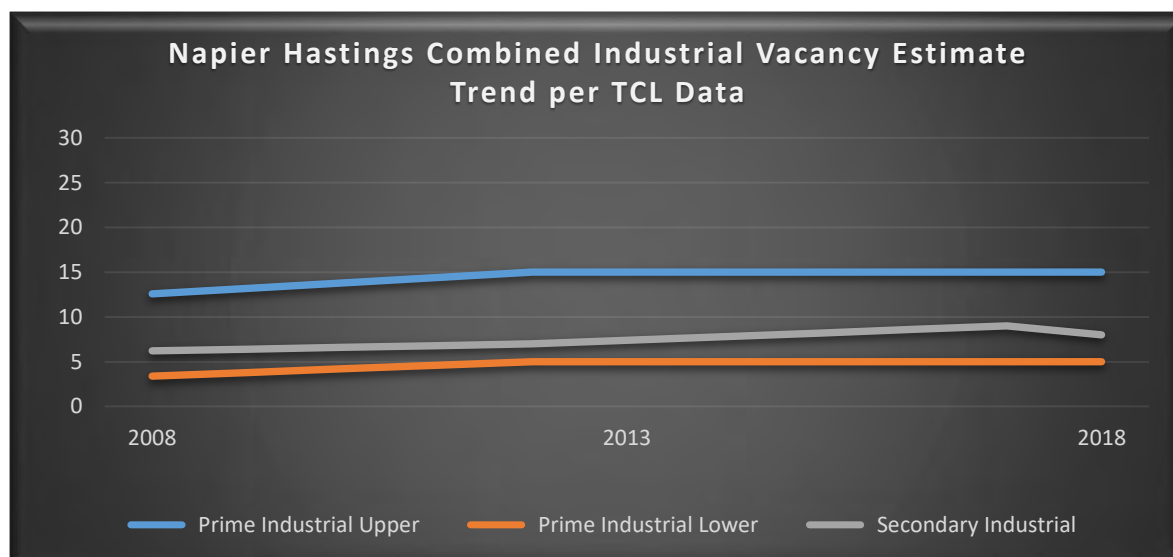
10. Business Vacancy

- 10.1. 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 areas⁵. While data for intervening years is available from Turley & Co for more detailed analysis, the graphs below reflect discrete estimates for 2007, 2012, and now 2017 (based on 2nd and 4th Quarter estimates made at those times), to give a broad indication of a trend over 10 years.

⁵ 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.

- 10.2. 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 while the economy stays buoyant.

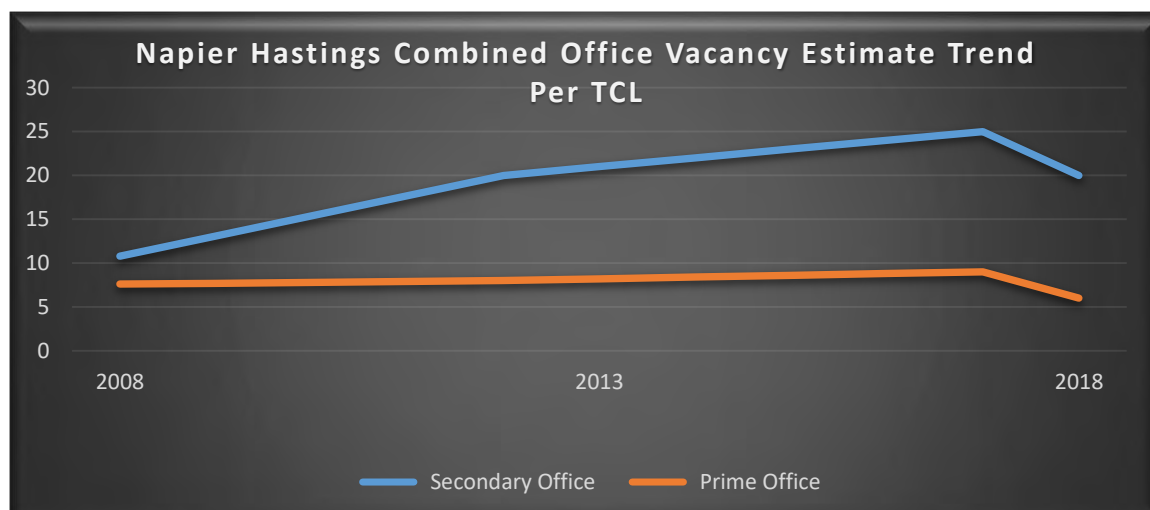
Figure 37: Napier Hastings Combined Industrial Vacancy Estimate Trend



(Source Turley & Co Data.)

- 10.3. 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 it appears to be still sought after. The high rate of secondary office property vacancy suggests there is still plenty of scope for redevelopment in this sector, but the economic conditions and rationalisation of stock upon redevelopment seems to have impacted on vacancy rates over the last year.

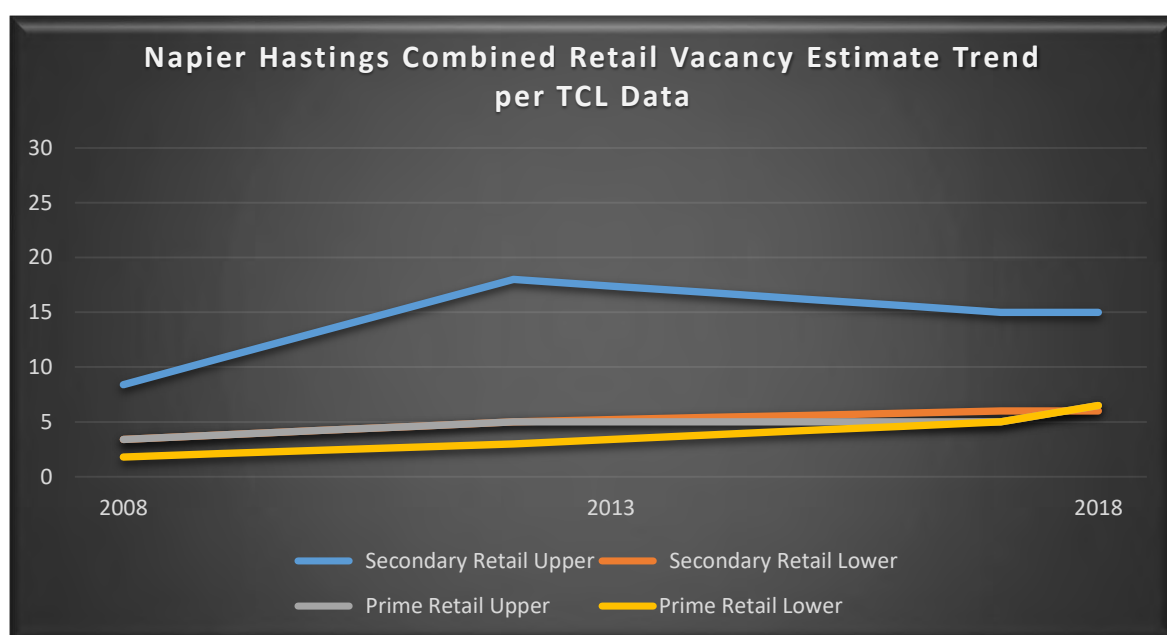
Figure 38: Napier Hastings Combined Office Vacancy Estimate Trend



(Source Turley & Co Data)

- 10.4. 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.
- 10.5. 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, combined with a slight rise in prime vacancy, suggests that increasing on-line purchasing and expansion in the large format sector, particularly at the Park Mega Centre may be having an effect on secondary retail.

Figure 39: Napier Hastings Combined Retail Vacancy Trend



(Source Turley & Co Data.)



Appendix 1 - Common placenames in Hastings/Napier urban area