



HASTINGS & NAPIER URBAN AREA

Housing and Business Market
Indicator Monitoring

***4th Quarter and Baseline Update
Report to 31 December 2019***



Published April 2020

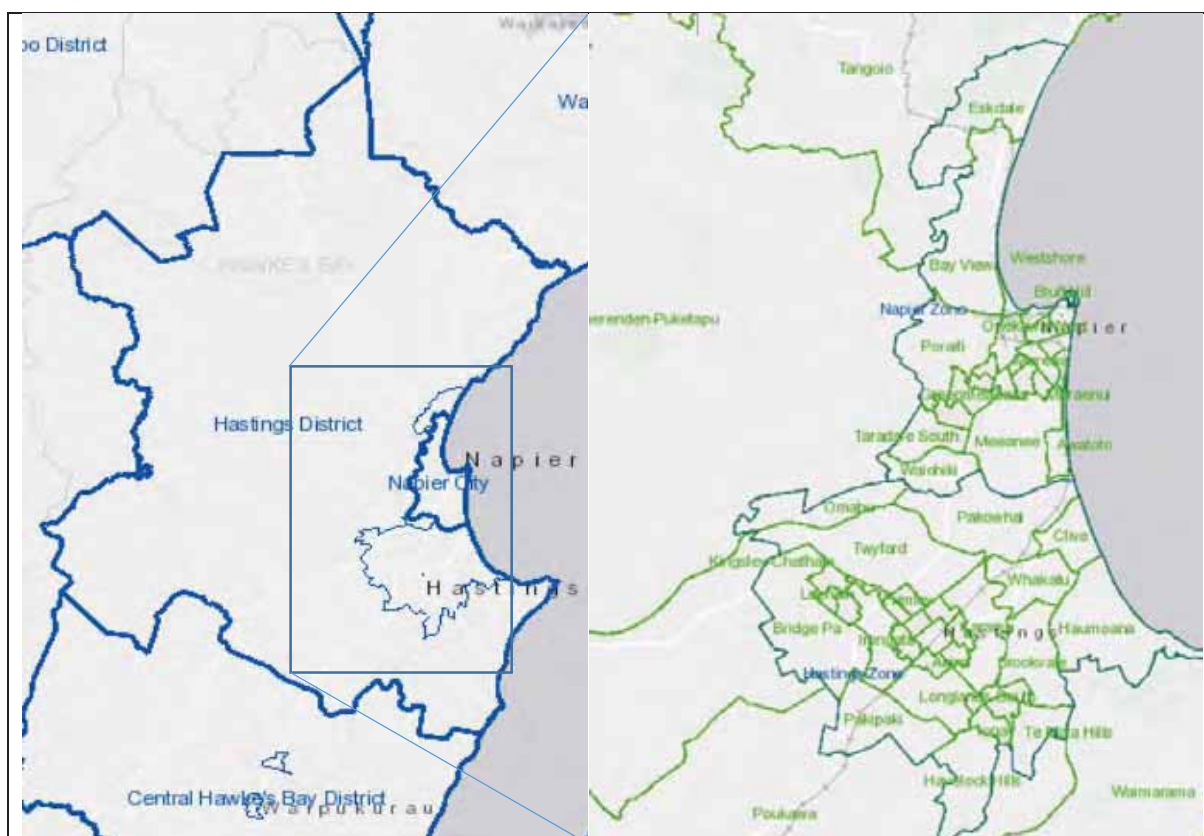
1. Purpose of this Report

- 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 to the end of 2019, using a selection of housing and business indicators. It is designed to meet the government's National Policy Statement on Urban Development Capacity (NPSUDC), which came into effect on 1 December 2016.
- 1.2. 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 monitoring property market indicators on a quarterly and annual basis and staying well-informed about urban development activity.
- 1.3. 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 responsive to changes in market demand and other market factors.
- 1.4. The information collected will be a key input to the three yearly Housing and Business Capacity Assessments (HBCA) that are also required by the NPSUDC, the first of which was published in 2019, based on data current to end of 2018.

2. Background

- 2.1. 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 the relevant SNZ forecasts for 2013-2023 period were just over 5%.
- 2.2. 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
- 2.3. Figure 1 shows the boundary of the Napier Hastings Main Urban Area in relation to the census area units incorporated within it. It is noted however, that SNZ introduced a new statistical area classifications in 2019 and these will be used for reporting data from the 2018 Census and other sources from 2020 onwards.

Figure 1 Napier-Hastings Urban Areas as defined by StatsNZ



- 2.5. NPSUDC Policy PB6 requires Council's in medium and high growth urban areas 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. To meet this requirement a Baseline Monitoring report was prepared in April 2017, based on 2016 data. Subsequently three shorter quarterly reports were published updating selected data from that Baseline report. The fourth quarter report, published in April 2018, represented a full update of the 2016 data for the 2017 year. This was repeated for 2018 and this report represents the fourth quarter report for 2019. Accordingly this report represents the third update of the 2017 Baseline Monitoring Report.

3. Joint Monitoring Approach

- 3.1. The NPSUDC encourages local authorities that have been identified as having a medium or high growth urban area within their jurisdictions to work together to implement the requirements of the NPSUDC. The Napier City Council, Hastings District Council and Hawke's Bay Regional Council had already worked together from 2009 to produce the Heretaunga Plains Urban Development Strategy 2010 and a scheduled review of it in 2016-2017. Under

the Strategy the three partner Councils have committed to regular joint monitoring on an at least five yearly basis.

- 3.2. The NPSUDC monitoring reports will be used by the HPUDS partner Councils to inform the required HBCA's, 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 and range of the data sources used in the reports, some information covers 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 generally not reported here, with some exceptions.
- 3.4. The report is broken down into the following sections:
 - Residential Land Capacity
 - Land Prices /Sales Activity
 - House Prices Sales
 - Housing Affordability
 - Migration
 - Business Building Activity
- 3.5. It is important that the report is read as a whole. Interpretation of what is happening in the market requires looking data in combination, rather than in isolation. It should also be noted that 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 conclusions, or deciding what actions need to be taken in the short the medium term. Longer term trends should be relied on over shorter term indications of emerging trends where significant capital or land use decisions are involved. Nevertheless shorter term emerging trends can help Councils and others fine tune plans, or adjust time scales in order to remain agile and responsive to changes in the market.
- 3.6. While some commentary and interpretation is given it is noted that property markets are complex and influenced by a range of variables. Accordingly a variety of different interpretations is possible, particularly when looking at the data in combination, so the emphasis in this report is to present information in graphical form to help readers to draw their own conclusions. Table 1 overleaf sets out the indicators contained in this report, and Appendix 1 presents a map illustrating the location of place names frequently mentioned in this report.

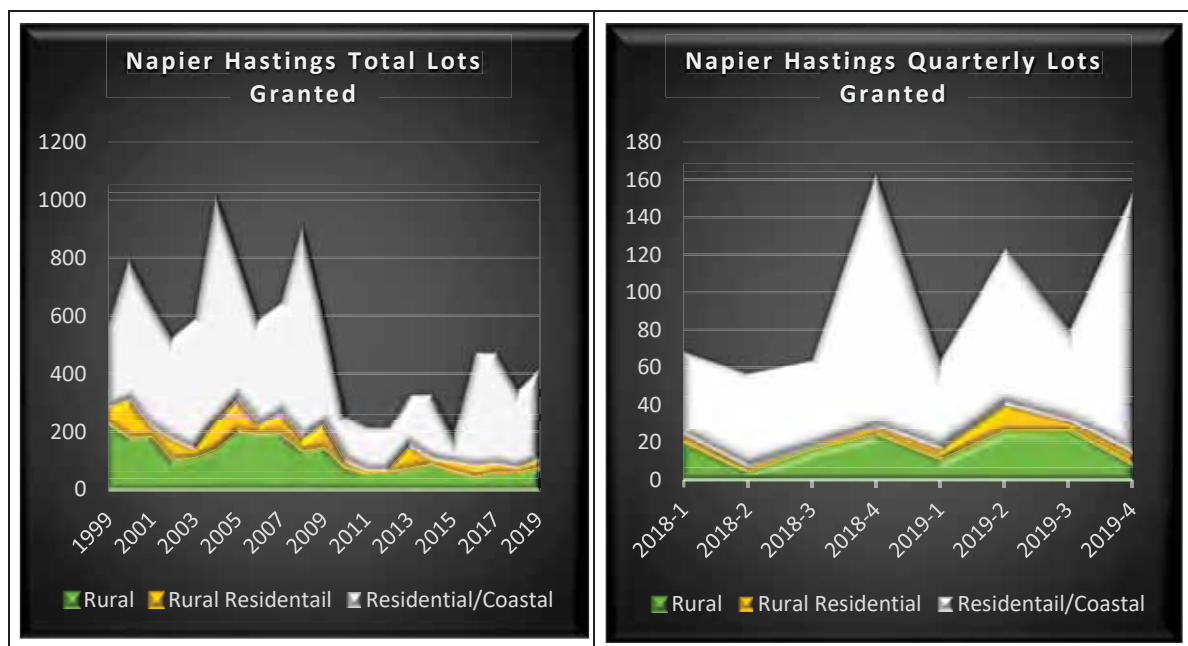
Table 1 Summary of Indicators Reported

NPSUDC-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	Annually
PB6 (b)	Residential	Land	Figure 5	Rural Lifestyle Capacity	Annually
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	Annually
PB6 (a)	Residential	Land	Figure 9	Price Cost Ratio NZ Regional Benchmark	Annually
PB6 (a)	Residential	Land	Figure 10	Price Cost Ratio Trend Peer Group Cities	Annually
PB6 (a)	Residential	Land	Figure 11	Average Land Value Trend Peer Group Cities	Annually
PB6 (a)	Residential	Land	Figure 12	Land Value % Percentage of Capital Value Trend Peer Group Cities	Annually
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	Annually
PB6 (b)	Residential	Dwellings/Lots	Figure 18	Comparison of Lot Creation to Dwelling Construction	Annually
PB6 (a)	Residential	Dwellings	Figure 19	12 Month Rolling House Prices	Annually
PB6 (a)	Residential	Dwellings	Figure 20	Sales Activity and Prices Peer Group	Annually
PB6 (a)	Residential	Dwellings	Figure 21	Rolling Average Dwelling Sales Prices for Selected Locations	Annually
PB6 (a)	Residential	Dwellings	Figure 22	Napier Hastings House Sales Volume & Prices	Quarterly
PB6 (a)	Residential	Dwellings	Figure 23	Weekly Rental Monthly Movements	Annually
PB6 (a)	Residential	Dwellings	Figure 24	Rolling Average Weekly Dwelling Rents	Quarterly
PB6 (a)	Residential	Dwellings	Figure 25	Napier Hastings House Buyer Classification	Annually
PB6 (a)	Residential	Dwellings	Figure 26	Origin of Buyers Purchasing Property in Napier Hastings	Annually
PB6 (c)	Residential	Affordability	Figure 27	Hawke's Bay Housing Affordability Index	Quarterly
PB6 (c)	Residential	Affordability	Table 4	Affordability Index Regional Comparison	Quarterly
PB6 (c)	Residential	Affordability	Figure 28	First Home Buyer Affordability Measure	Annually
PB6 (c)	Residential	Affordability	Figure 29	First Home Buyer Affordability Peer Group Comparison	Annually
PB6 (c)	Residential	Affordability	Figure 30	Napier Hastings Rental Affordability Measure	Annually
PB6 (c)	Residential	Affordability	Figure 31	Rental Affordability Peer Group	Annually
PB6 (b)	Residential	Affordability	Figure 32	Rolling Average Ratio of Dwelling Prices to Rents Peer Group Trend	Annually
PB6 (b)	Residential	Affordability	Figure 33	New Zealand Net Migration and Dwelling Construction Rates	Annually
PB6 (b)	Residential	Affordability	Figure 34	Permanent Migration to the Regions	Annually
PB6 (b)	Residential	Affordability	Figure 35	Migration and Housing Prices	Annually
PB6 (b)	Business	Value	Figure 36	Napier Hastings Twelve Monthly Rolling Commercial Building Consent Values	Quarterly
PB6 (b)	Business	Building	Figure 37	Non Residential Floorspace Consented	Annually
PB6 (b)	Business	Building	Figure 38	Industrial and Commercial Floorspace Consented	Annually
PB6 (b)	Business	Building	Figure 39	Quarterly Commercial Industrial and Total Non-Residential Floorspace Consented	Quarterly
PB6 (a)	Business	Land-Buildings	Figure 40	Industrial vacancy rate	Annually
PB6 (a)	Business	Land-Buildings	Figure 41	Office vacancy rate	Annually
PB6 (a)	Business	Land-Buildings	Figure 42	Retail vacancy rate	Annually

4. Residential Land Capacity

- 4.1. Residential land capacity comprises greenfield residential areas, infill development potential, brownfields¹ developments and other more dispersed types of living environments, such as coastal settlements, marae based communities and rural residential/lifestyle living.
- 4.2. Figure 2 shows the estimated number of lots for which subdivision consent was granted over the last 20 years, by three main groupings; residential/coastal settlement, rural residential and rural (farming). 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. Spikes in residential lot creation 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. A resurgence in new residential subdivision started around 2016 and continued with the release of a large block of land in Lyndhurst Stage 2 in the fourth quarter of 2018 and again in 2019, with the latter also including new 48 lot stage at Te Awa.

Figure 2: Napier Hastings Total Lots Granted 1999-2019



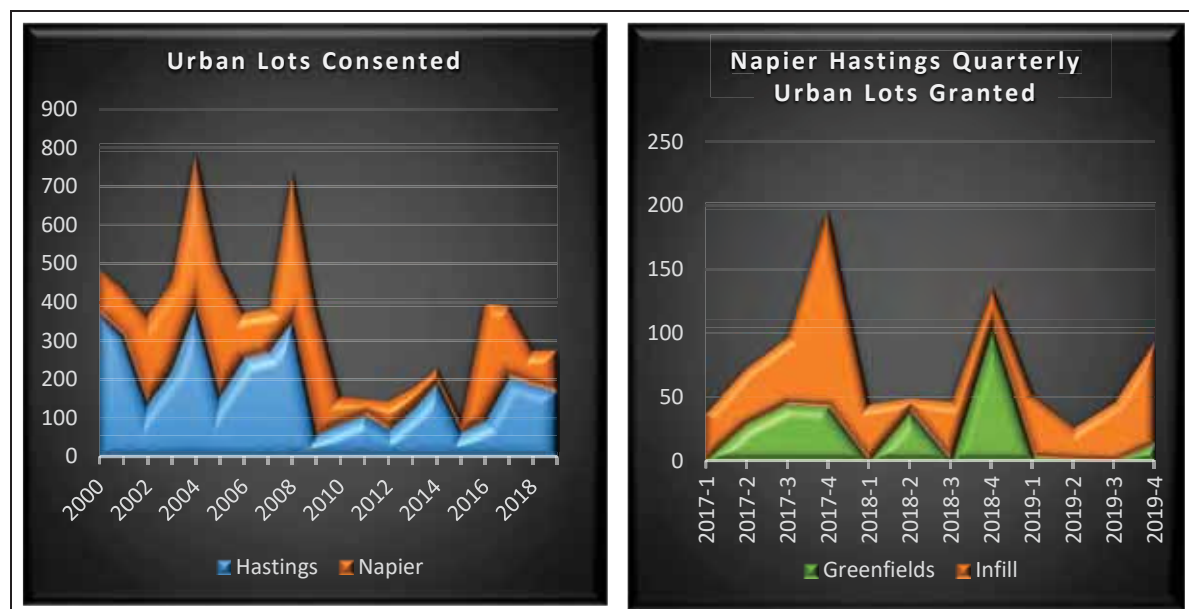
Source NCC and HDC)

- 4.3. Figure 3 shows the residential lots created annually broken down by Napier and Hastings and then quarterly for infill and greenfields. Hastings has provided a greater share of capacity with the exceptions of 2001, 2003 and 2008. By its nature however, greenfield subdivisions tends to occur in large numbers at irregular intervals, with the construction and release of the actual sections usually occurring in smaller stages.
- 4.4. In 2016 the situation was reversed with a large number of greenfield lots consented in the last quarter of 2016 with the Napier City Council subdivision at Parklands. Two large infill subdivisions in Napier (former market gardens) were also consented in the fourth quarter of 2017. The smaller spike in infill in the last quarter of 2019 shown in figure 3 (and residential

¹ Redevelopment of obsolete commercial or industrial sites for residential purposes.

lots in figure 2) reflects the Hastings District Councils 20 lot subdivision of existing park land in Tarbet Street Flaxmere and the final stage of one of the Guppy Road subdivisions in Napier. So overall, while capacity is increasing, it has yet to hit the peaks experienced during the last property cycle, and had tapered off a little in 2018-2019.

Figure 3: Napier Hastings Urban Lots Consented



(Source NCC and HDC)

- 4.5. Table 2 sets out the vacant residential lot capacity within the main greenfield growth areas as the end of December 2019 after allowing for building consents over the previous quarter. It estimates the number of subdivided lots and the potential capacity of larger zoned areas serviced with bulk infrastructure that have yet to be subdivided. At the end of 2019 a total of 303 lots were available to be built on if released by the market and potential serviced capacity existed for a further 1262 lots to give a total of 1565. Of the remaining potential capacity total, 166 lots in Napier and 43 in Hastings had been granted resource consents, but physical construction had not been completed.

Table 2: Residential Land Capacity and Quarterly Uptake to December 2019

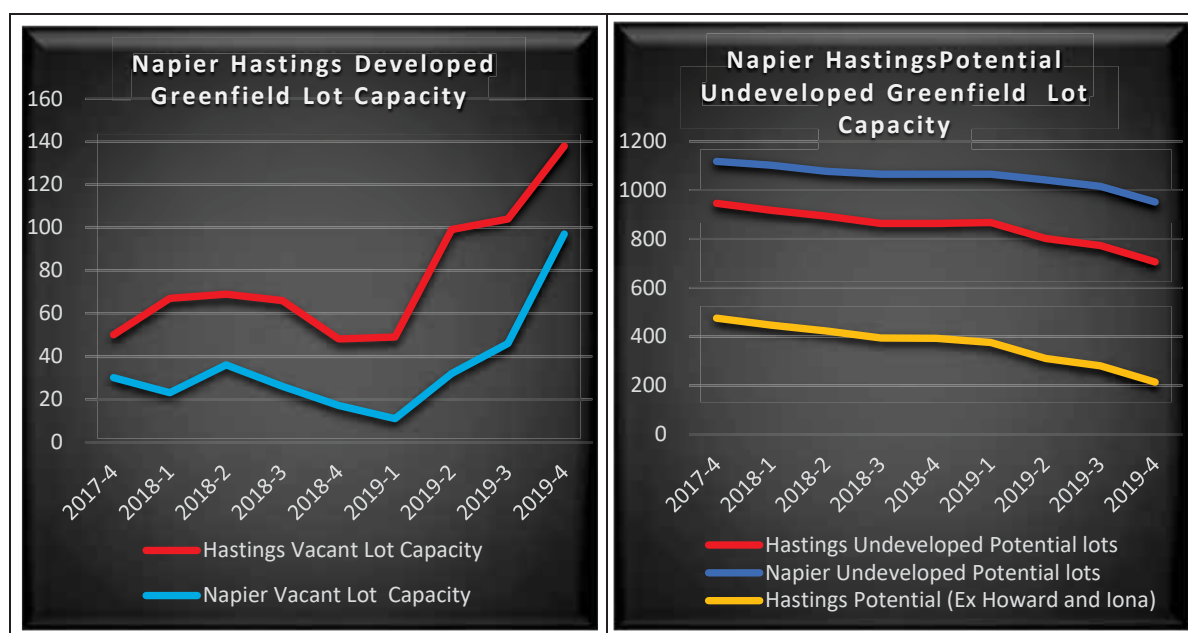
31-Dec-2019 Area	Unbuilt Lot Capacity 30-Sep	New Lots Created this Quarter	Building Consents Granted	Balance lots	Lots yet to be Created	Total Remaining Capacity
Arataki	42	0	14	28	0	28
Lyndhurst Stage 1	4	0	0	4	12	16
Lyndhurst Lifestyle Village	0	0	0	0	0	0
Lyndhurst Stage 2	34	39	7	66	182	248
Northwood	22	28	12	38	29	67
Waingakau Village	70	0	0	70	0	70
Parklands	33	0	5	28	130	158
Te Awa	13	64	8	69	909	978

Total	218	131	46	303	1262	1565
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(Source NCC and HDC) Note addition of 70 lots at West Flaxmere - Waingakau Village

- 4.6. Figure 4 shows the quarterly net change in lot capacity after allowing for new lots and those taken up for new dwellings over the last two years. Current capacity had been fluctuating around 80-100 lots between Hastings and Napier, but with Lyndhurst Stage 2 opening up, this has accelerated over 2019 to around 240 lots (with undeveloped capacity consequently reducing) as new sections were completed over the past year. Current greenfield building rates over the last four years have averaged around 175 p.a, so on that basis current and potential capacity would last around 8^{1/2} years.

Figure 4: Greenfield Land Uptake 2019



(Source NCC and HDC)

- 4.7. As well as these zoned and serviced areas², 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 at 1300 and 2635 lots respectively.
- 4.8. HPUDS estimates a greenfield residential uptake rate of approximately 270 households per annum **on average** over the next ten years (note this is a lot higher than the current average uptake of 175 lots referred to above). However, current available lot capacity represents just over one year of that annual demand, so achieving that higher rate of building relies on further subdivisions stages being completed in the near future. 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 also relies on Iona and/or Howard Street being delivered to the market within the next 1-2 years.
- 4.9. While there had been a pinch point in current capacity over the 2015-2017 period, current and pipeline developments are rectifying this situation, and these would likely have been

² Note - a further 170 lots in Napier at Park Island is pending completion of Treaty Settlement processes.

sufficient to meet demand for 11-12 years based on projected average demand. On the **average** projected demand basis the current potential supply estimate would last 6-7 years³, and with a further 5 years being provided within one to two years' time.

Table 3: Current and Planned Residential Section Capacity

Areas	Available Capacity
Currently Zoned and Developing	
Arataki	28
Lyndhurst	16
Northwood	67
Lyndhurst 2	248
Waingakau*	70
Parklands**	158
Te Awa***	978
Park Island****	170
	1735
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	5609

** New addition to the table at West Flaxmere - existing capacity re introduced to the market under the Waingakau Village mixed affordability model.*

*** All consented*

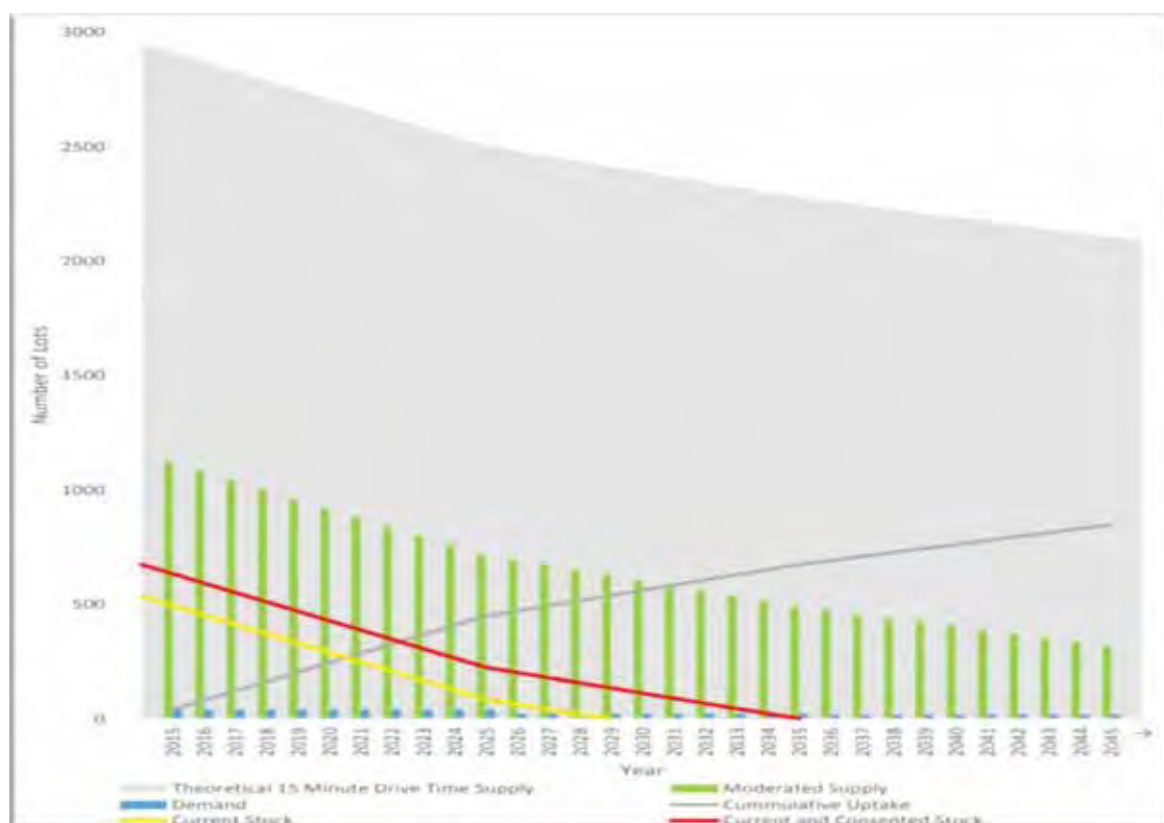
****Expected to occur in stages when developers are ready to pay the financial contributions/install infrastructure.*

³ Excluding Howard Street and Iona Road, which although now zoned, are potentially still 12-18 months away from being able to be subdivided due to services needing to be provided by the Council.

*****Subject to Treaty Settlement Claims*

- 4.10. This projected demand however is uncertain however. A growth spike in inwards migration from at least 2016 (see section 9) has likely created a backlog of unmet additional demand which, if able to be satisfied by the construction sector, could result in the available capacity being consumed earlier than projected (see Napier Hastings HBCA 2019). Even the backlog estimated in the HBCA is uncertain given that SNZ is recasting's its population estimates from 2013-2018 in the light of the 2018 Census results and a change in the way international migration has been accounted for. Clearly the impacts of Covid19 adds a new dimension of uncertainty around demand going forward.
- 4.11. The 2019 HBCA also reviewed infill capacity. 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 (9167 lots over the 2018-2048 period) to meet the HPUDS **average** demand targets over time. That assessment was based on an HPUDS annual target demand over the next ten years for new infill dwelling development of approximately 210 p.a. This is above the average rate of infill housing development over the past four years of 180 p.a. but this has been showing an increasing trend, with 230 infill units consented in 2019.
- 4.12. Similarly a review of lifestyle lot capacity (within a 15 minute drive of the CBD) undertaken as part of the 2017 HPUDS Review demonstrated that there was sufficient current and consented supply to accommodate demand over the period 2015 to 2030-35. The potential surplus of zoned supply over the following 15 year period would of course depend on the rate of further subdivision undertaken, as depicted in Figure 5 below:

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



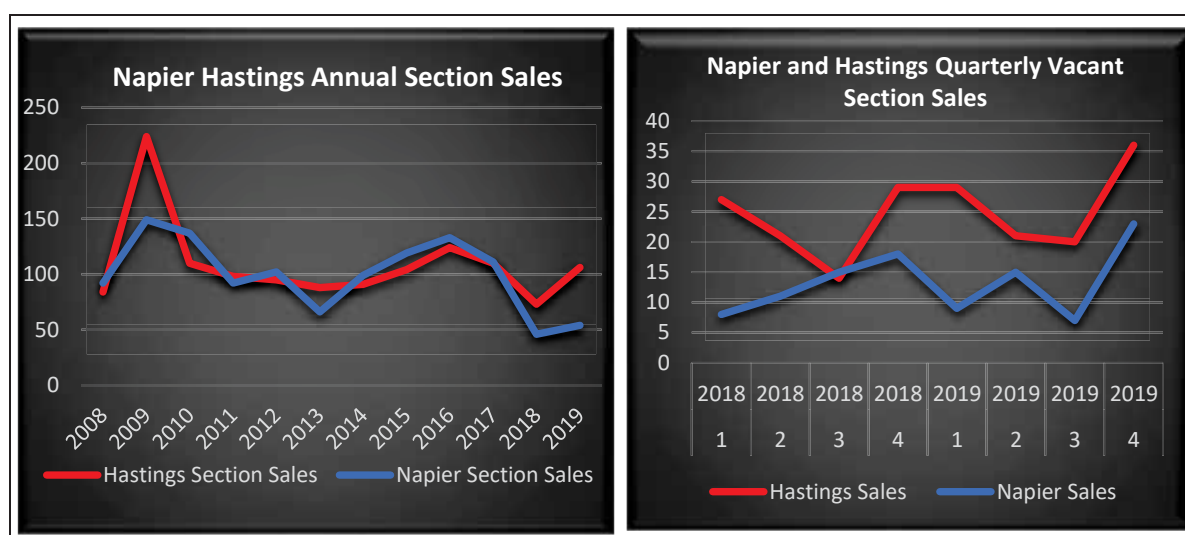
(Source "Review of Rural Residential/Lifestyle Sites - Cheal Consultants 17 June 2016-")

- 4.13. At present the systems for monitoring the remaining capacity for rural lifestyle land are not sufficiently developed to record uptake spatially on a quarterly basis. However, around 240 rural lots and 100 new rural residential lots were consented over the past four years from 2015 compared to 460 new dwelling consents. If all of the deficit were lifestyle dwellings then current supply should have reduced by around 120, compared to the 180 indicated by the graph, indicating an absence of capacity constraints in this sector of the market.

5. Land Prices /Sales

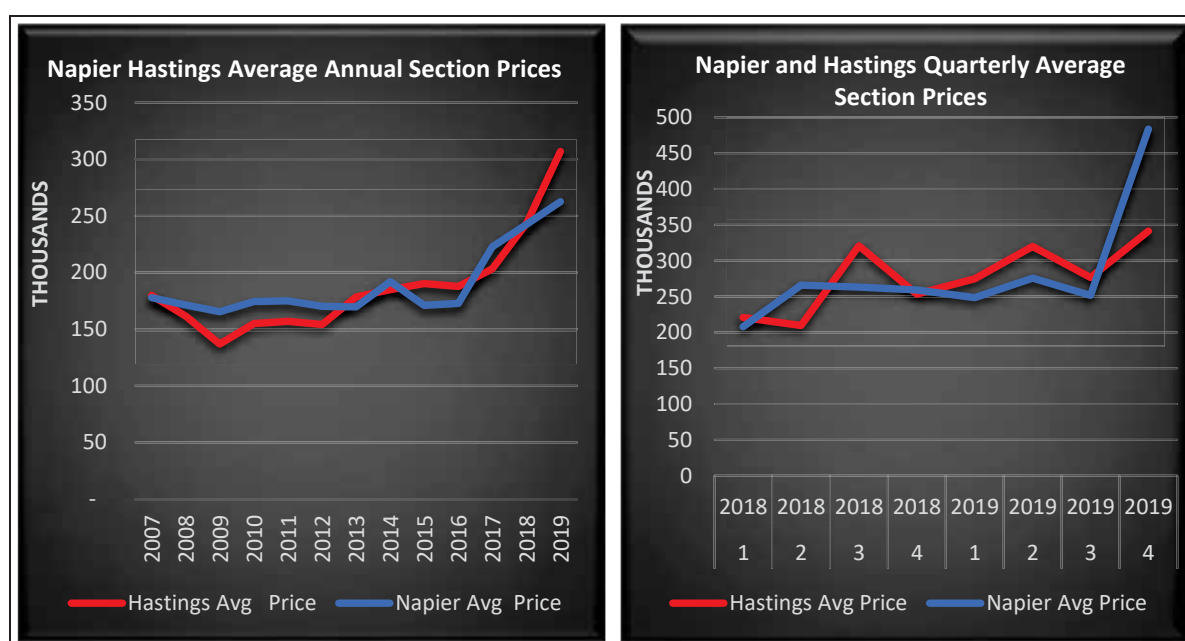
- 5.1. Figures 6 and 7 show Hastings and Napier vacant section sales volumes and average sales prices on an annual basis since 2008 and on a quarterly basis over the last 2 years. This covers both infill and traditional greenfields sites. Note the third and fourth quarters of 2018 may have some degree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

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



(Source Logan Stone Valuers)

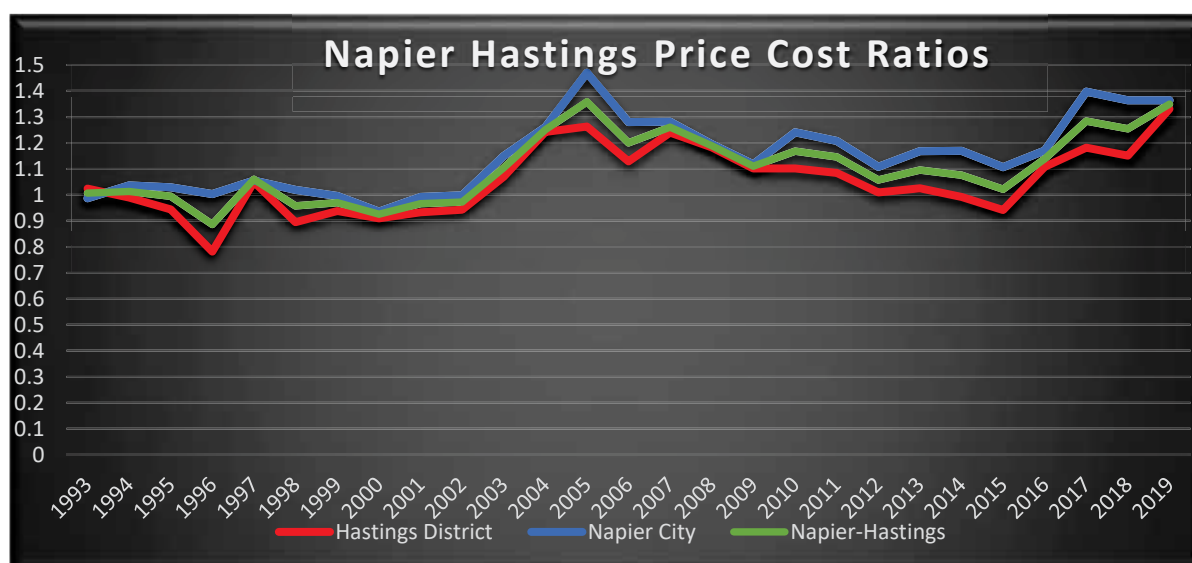
Figure 7: Napier and Hastings Vacant Residential, Average Section Sales Prices



(Source Logan Stone Valuers)

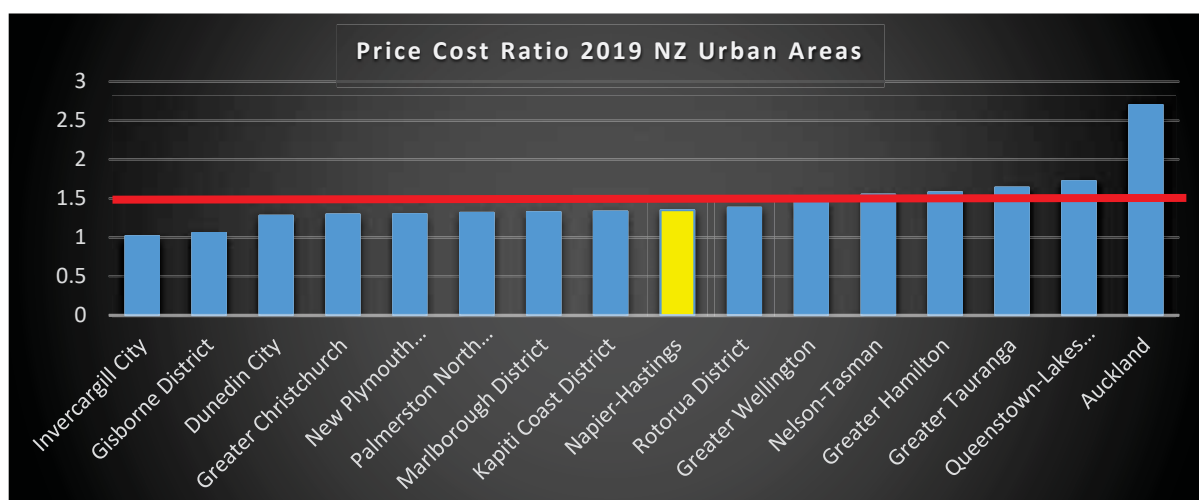
- 5.2. The similarity in the data between Hastings and Napier suggests a strong overlap between the two urban markets. Overall, steady section price growth in both cities has mirrored house price movements in both cities (See Section 8.4). Price growth accelerated from 2016 and average section prices increased dramatically in the third quarter of 2018 in Hastings in particular. This may be partly a reflection of greater proportion of greenfields sales compared to infill as greenfield section supply eased, but against a backdrop of increasing house and land prices generally. The abnormally large increase in section sales prices in Napier may be due to few high priced sales associated with the elevated Oak Road subdivision and a change to open competitive (closed) tender for the sections in Parklands, resulting in increased prices for section sales.
- 5.3. Figure 8 shows MBIE/MHUD'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. The Price Cost Ratio 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 1993-2019 Napier Hastings Urban Area



(Source MBIE/MHUD Dashboard)

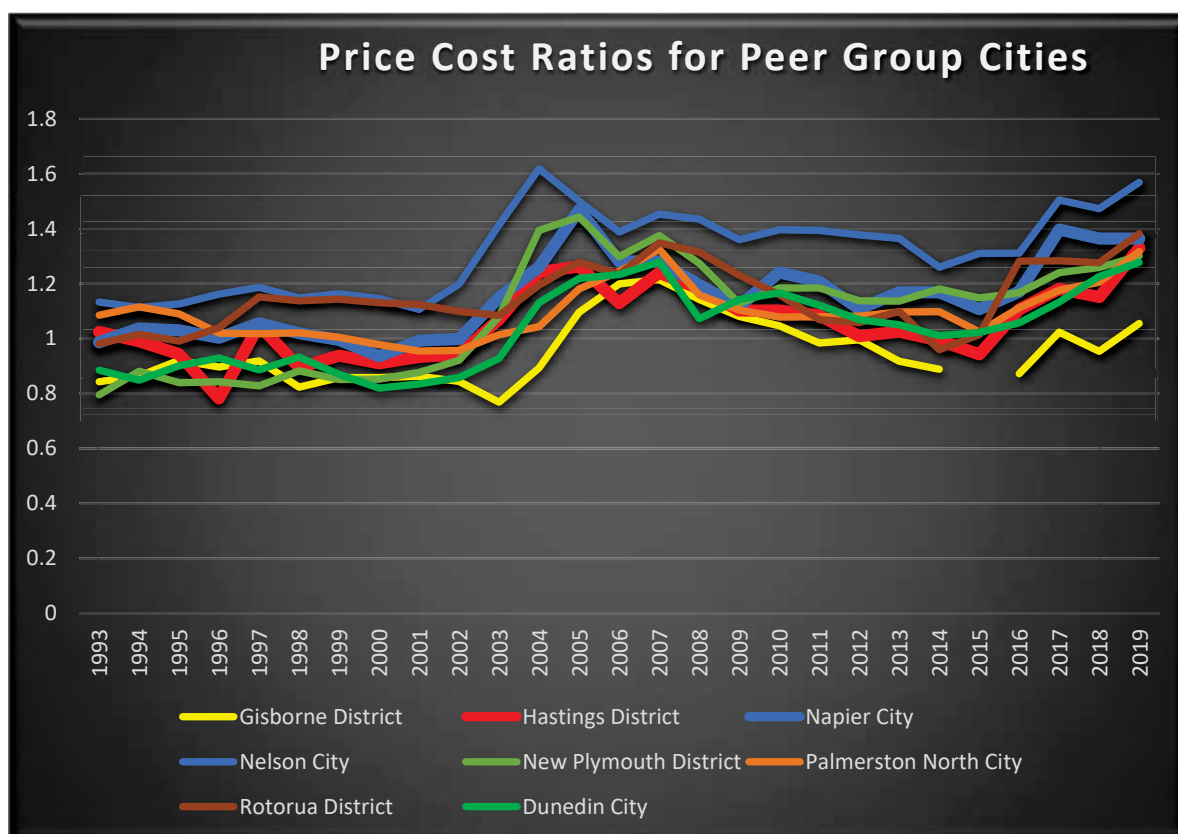
Figure 9: Price Cost Ratio for New Zealand Urban Areas 2019



(Source MBIE/MHUD Dashboard)

- 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, improving section supply during 2018 saw the ratio stabilize, although the rise in 2019 is concerning and generally reflective of increased vacant land sales prices shown in figure 8 above.
- 5.5. In addition a check with other peer group urban areas as shown in Figure 10 indicates a similar upwards trend across the board from 2016 and into 2019, also suggesting factors beyond localised land supply, is having an impact on the measure.

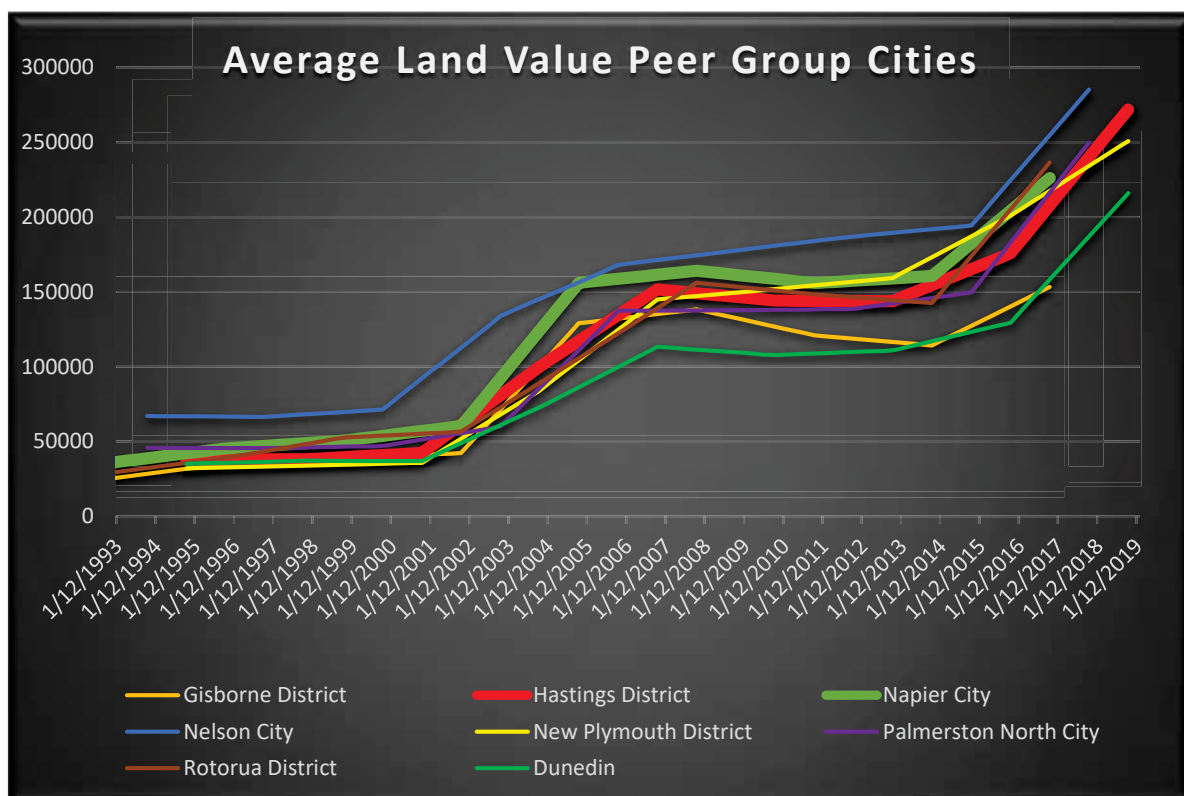
Figure 10: Price Cost Ratio Trend for Peer Group Cities 1993-2019



(Source MBIE/MHUD Dashboard)

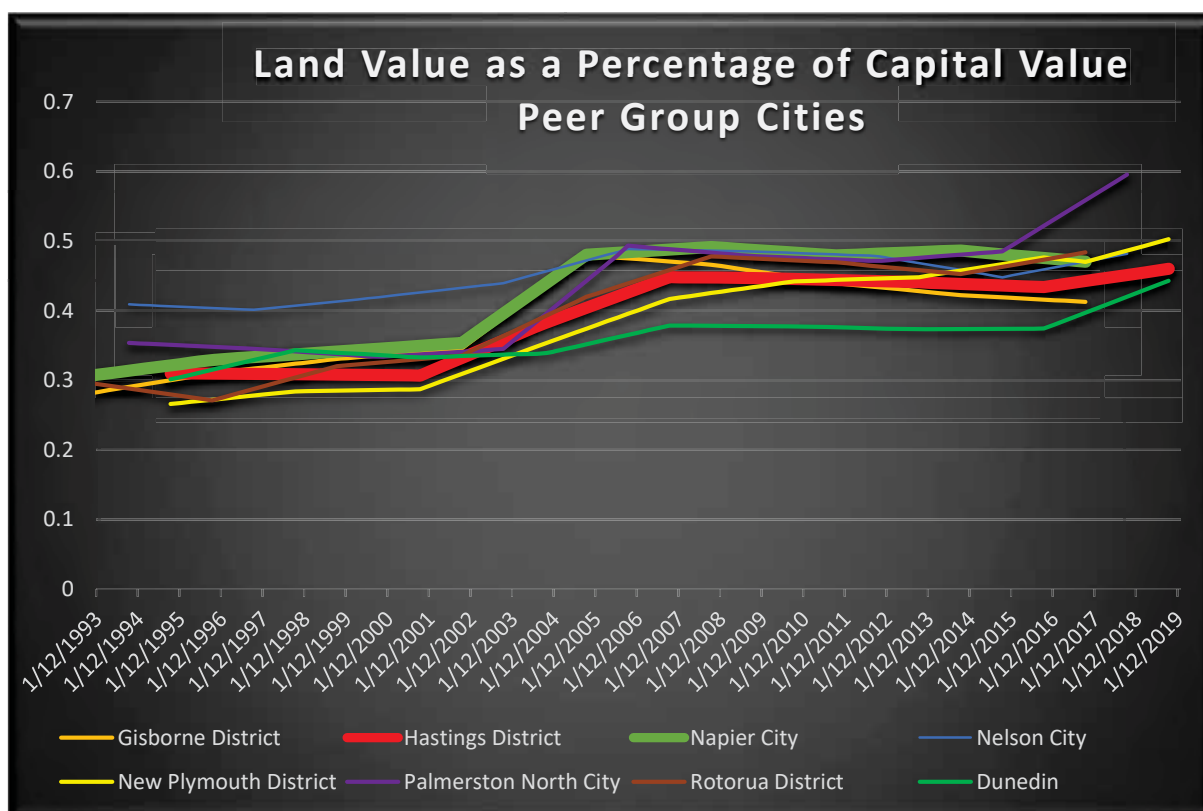
- 5.6. As a further check Figure 11 tracks the average value of existing dwellings (based on the three yearly valuation) for Hastings and Napier and the Peer Group cities. This shows significant movement at the October 2019 valuation for Hastings, mirroring that for Napier at its 2017 revaluation. Land values had not risen for either city since 2005-2007 suggesting that 2016-17 was a turning point for the property market locally and this is similar with the peer group. Land value as a percentage of capital value for the same peer group is shown in Figure 12. While there was a slight increase in the ratio for Hastings, this was not as pronounced as for Palmerston North and Dunedin. This suggests that land prices have merely kept pace with house prices and are possibly being dragged upwards by that larger part of the market, rather vacant land values driving up house prices.

Figure 11: Average Land Value of Dwellings 1994-2019



(Source MBIE/MHUD Dashboard)

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

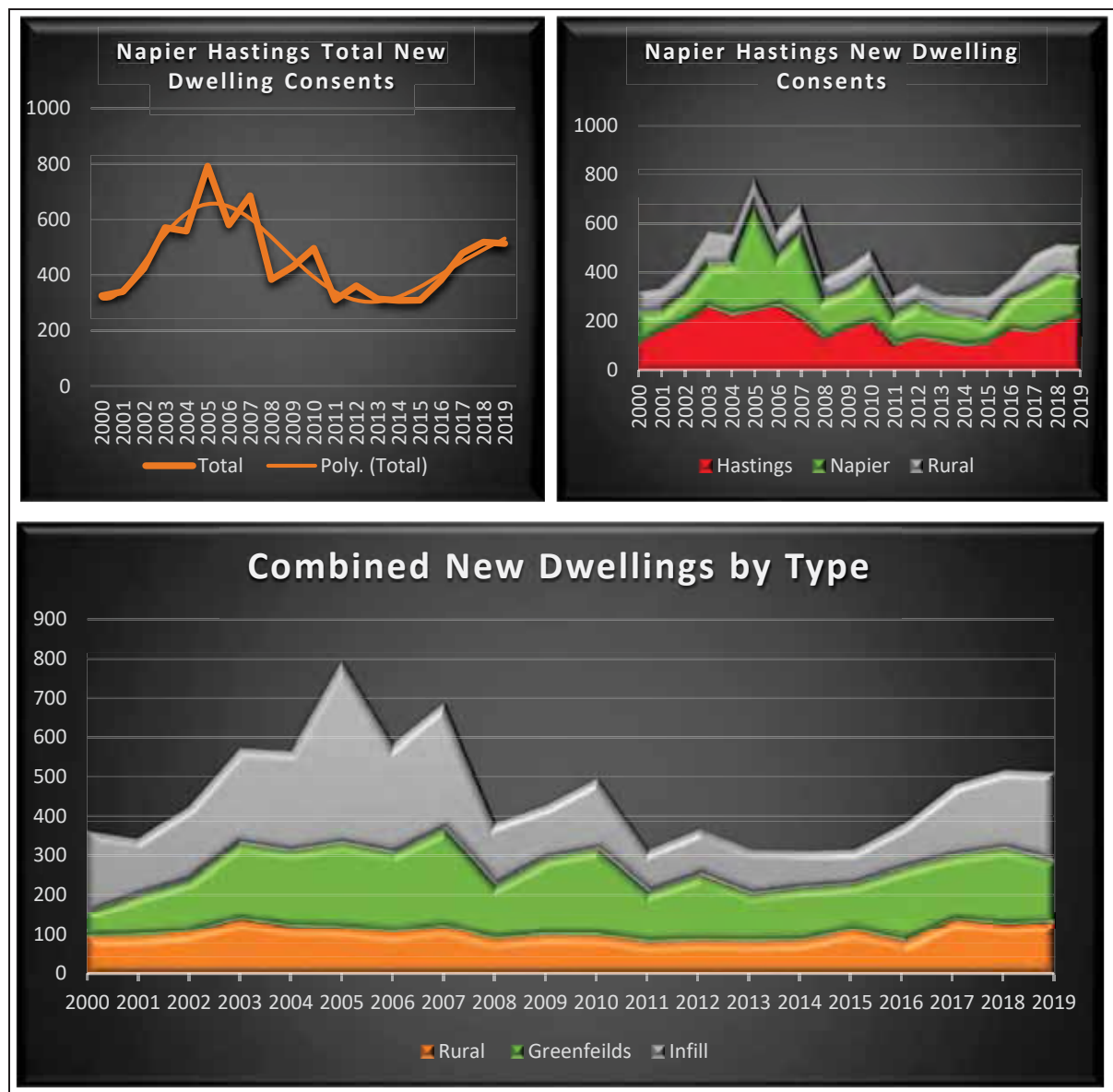


(Source MBIE/MHUD Dashboard)

6. Building Activity

- 6.1. Building consent data shown in Figure 13 below highlights 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. This peaked in 2018 at 519 p.a, but dropped only slightly in 2019. Rural/lifestyle development picked up in 2017 and has remained relatively steady since at around 100 p.a.

Figure 13: Napier Hastings New Dwelling Consents 2000-2019



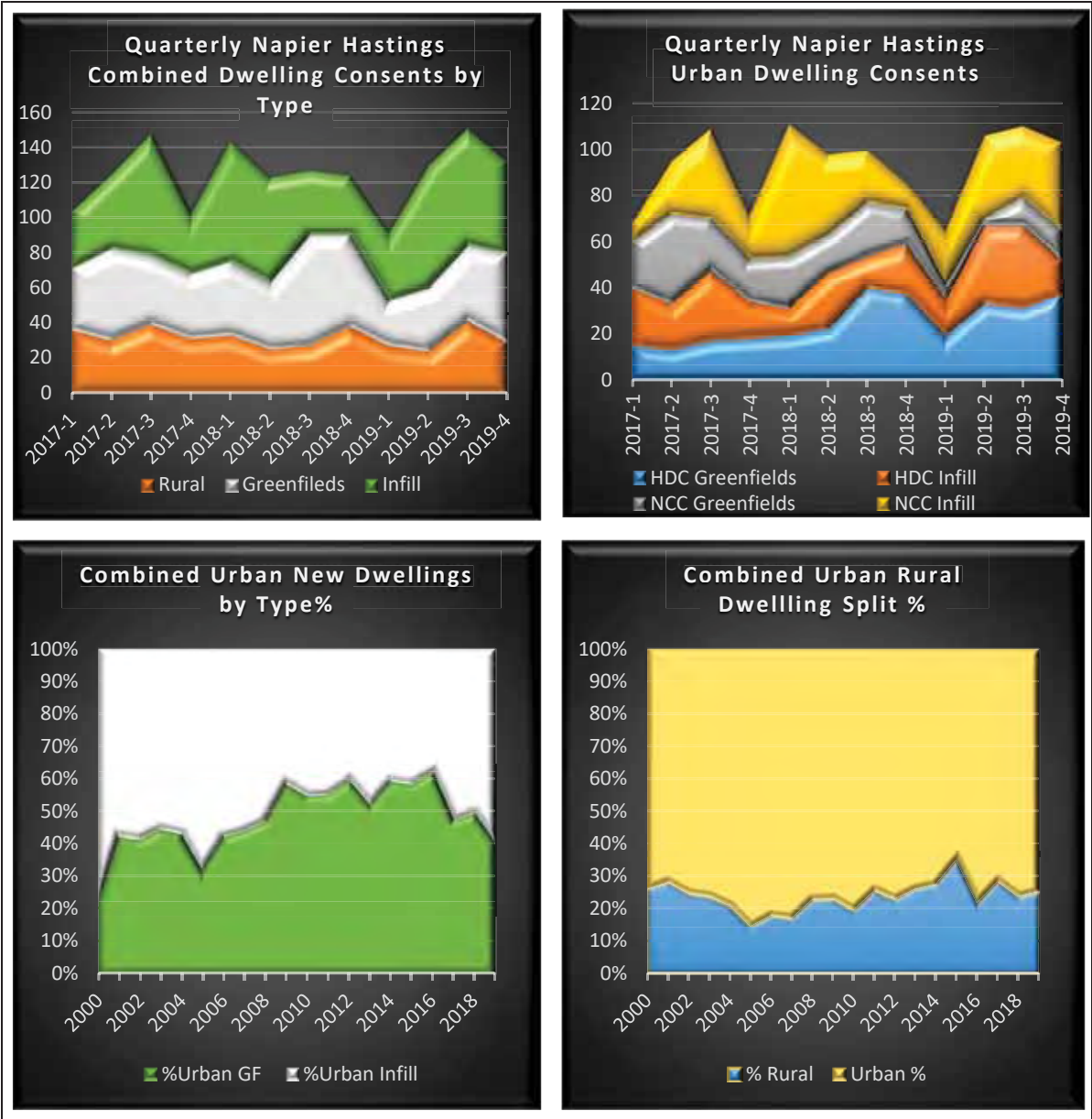
(Source HDC and NCC)

- 6.2. While 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), greenfield development dominated urban development from then until 2016 when infill development picked up again. Two key drivers for infill here are; firstly the two Guppy Road market garden developments in Napier in 2017 and secondly an increase in state funded new construction and renewal in 2018.
- 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. A

pinch point in greenfield supply in Hastings is evident in the reduced greenfield development rates over most of 2017, but slowly improving section availability saw increased development in the second half of 2018 and into 2019, mostly in Hastings with the Lyndhurst Stage 2 Development being brought to the market.

- 6.4. A fall in greenfield development in Napier in 2019 is likely due to the completion of large consented developments in Te Awa from the single developer (Te Awa Estate Ltd) who created all the sections in this Greenfield growth area. All other developers have struggled to make the costs of development in this area work in terms of bringing sections to market and achieving Structure Plan outcomes.
- 6.5. Infill development increased dramatically over the last three quarters of 2019 in both Hasting and Napier, although Hastings infill dipped back somewhat in the last quarter. Nevertheless, the proportion of greenfields relative to infill development has increased overall since 2008 and rural/lifestyle development has increased slightly over urban over the same period.

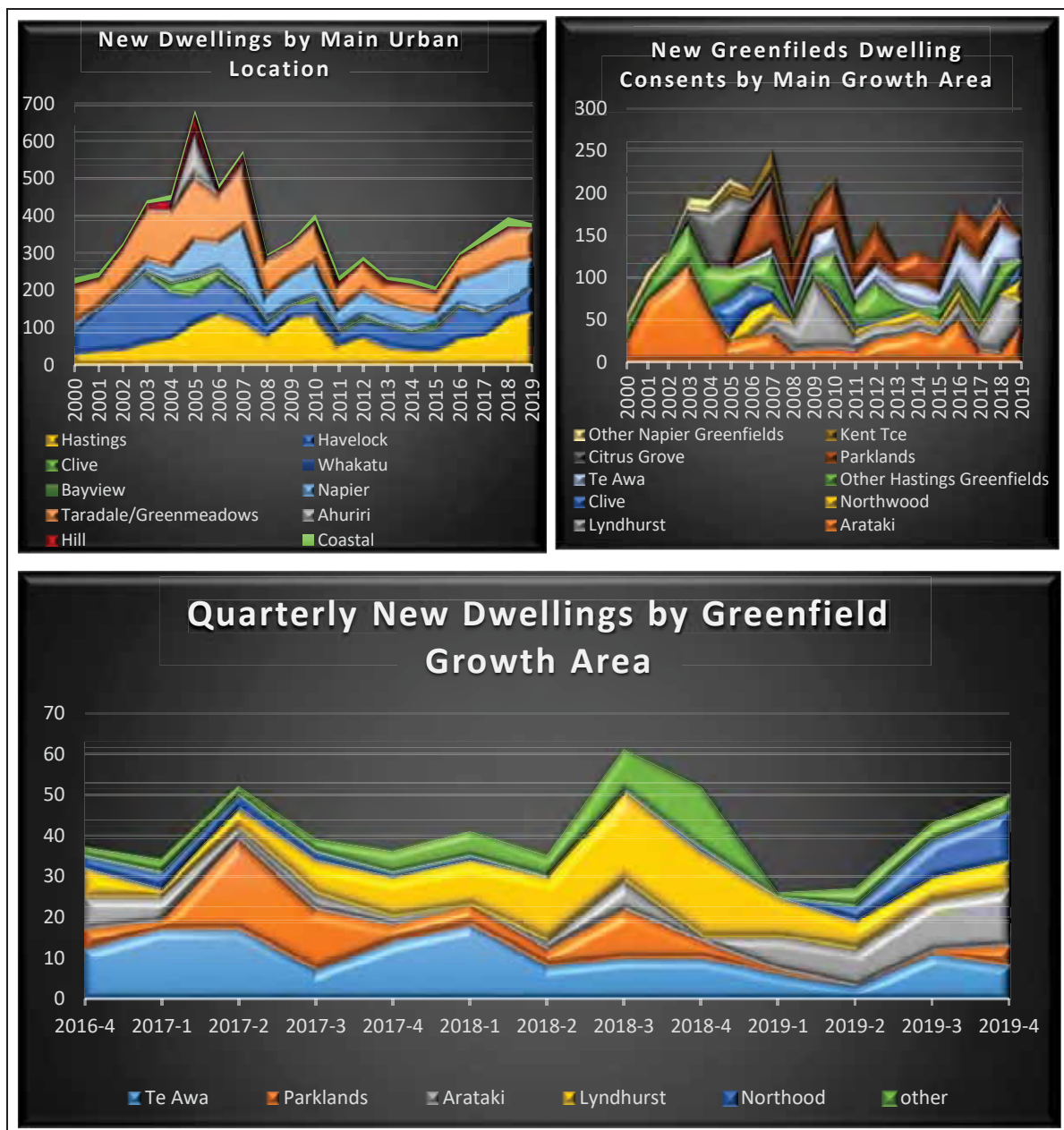
Figure 14: Napier Hastings New Dwelling Consents by Location Type



(Source HDC and NCC)

- 6.6. Figure 15 below indicates that the early 2000's were characterised by relatively few greenfields growth areas. Increasing greenfield choices came on stream from around 2003-2005, but serving reduced demand from around 2010. Choices still remain, but is noted that Arataki and Northwood will soon be exhausted and the need for Howard Street and Iona to provide choice in the market remains important, as is renewed availability at Parklands. Overall urban dwelling construction remains reasonably well distributed across the two urban areas.

Figure 15: Napier Hastings New Dwelling Consents 2000-2019 by Location



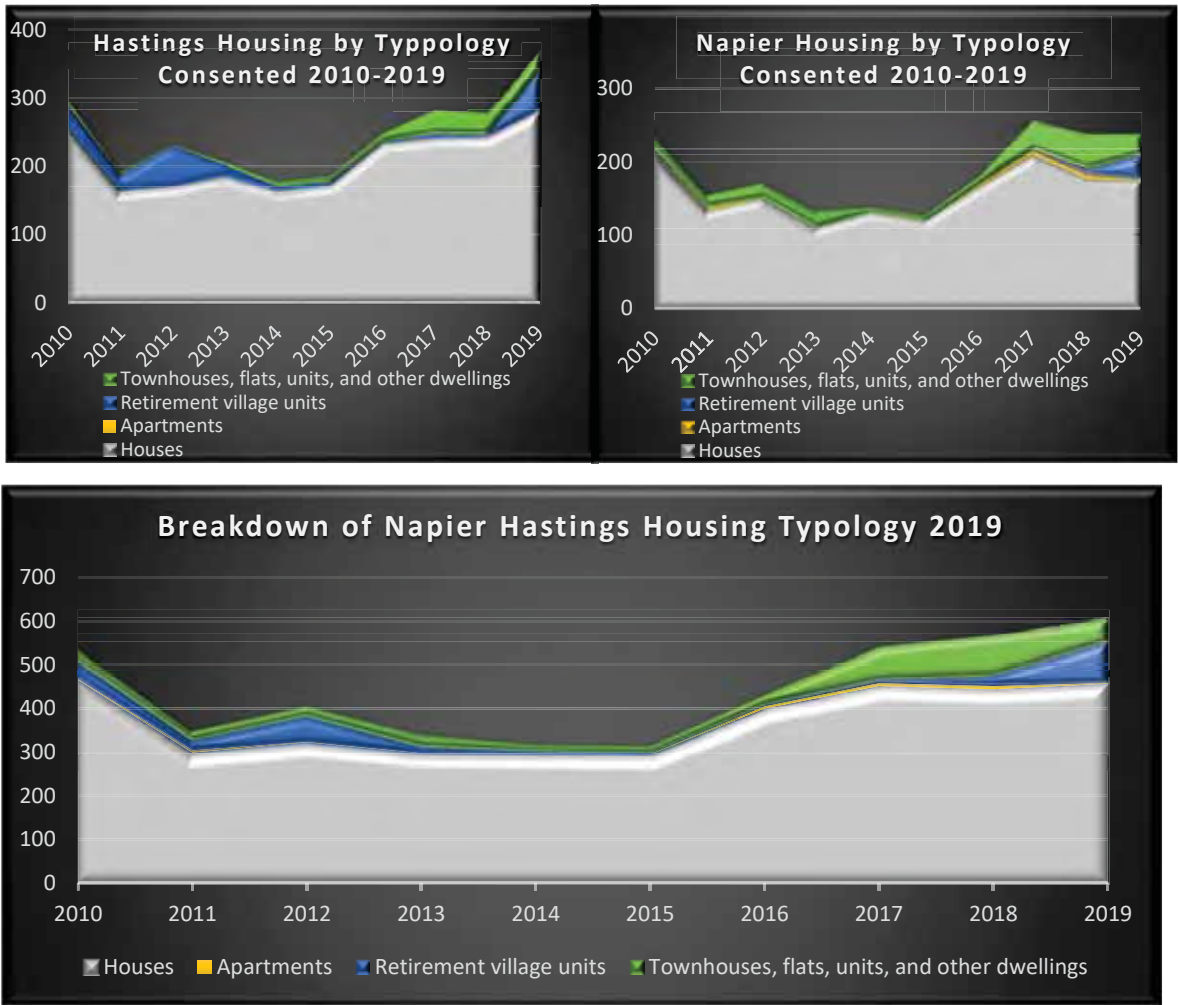
(Source HDC and NCC)

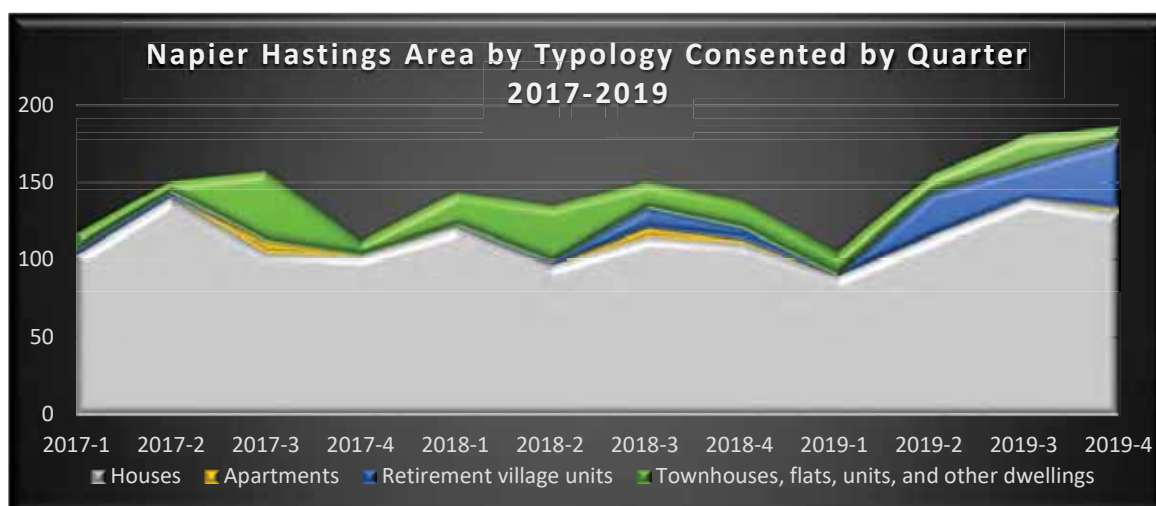
- 6.7. With Arataki nearing completion in early 2016, a pinch point in greenfield supply in Hastings meant nearly half of greenfield development since the end of 2016 has been in the Napier growth areas of Te Awa and Parklands, but with short term supply constraints evident at Parklands at the end of both 2016 and 2017. However 2018 saw Lyndhurst Stage 2 and other smaller Hastings Greenfields offerings rebalance the mix in favour of Hastings. This has continued and strengthened into 2019 with the long delayed release of the final stages of

Northwood picking up from Lyndhurst Stage 2 where sections dried up between stages. The release of sections in Te Awa and Parklands again in early mid 2019 has seen signs of renewed development in the Napier greenfields market.

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 tended 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 was 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 and license to occupy retirement villages.

Figure 16: Napier Hastings New Dwelling Consents 2000-2019 by Housing Typology





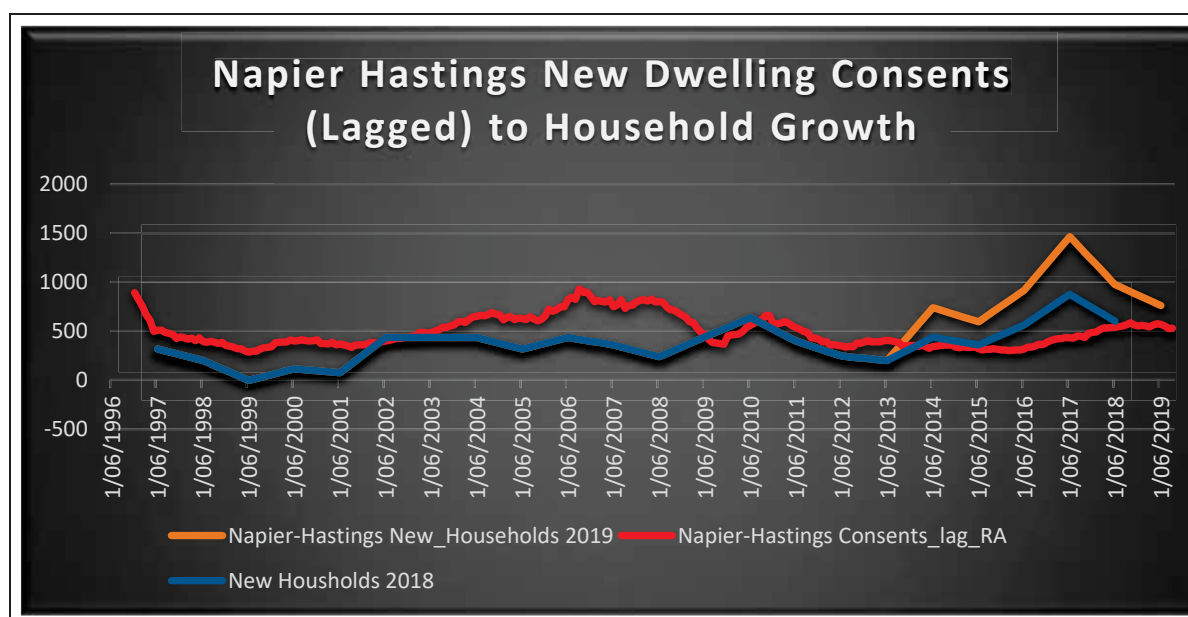
(Source StatsNZ)

- 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 license 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 significant new developments in the pipeline have started to show toward the end of 2019.

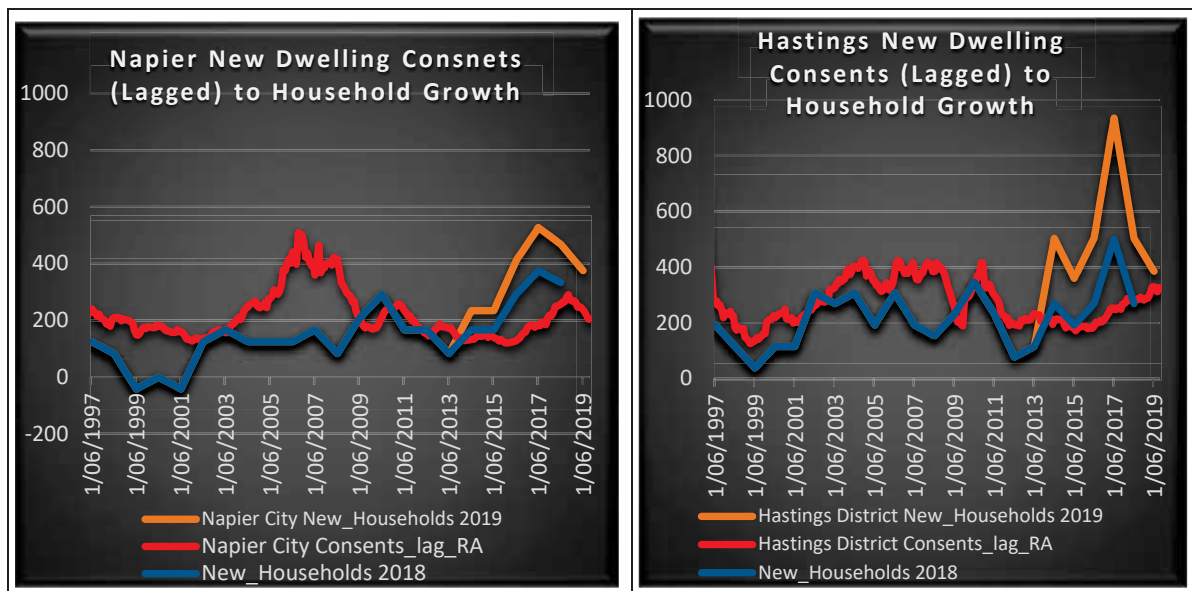
7. Household Growth, Lot Creation and Dwelling Consent Balances

- 7.1. Figure 17 tracks new dwelling consents, lagged by six months to approximate completions, against estimated new household growth⁴. This is a measure of whether house building is keeping pace with demand by new households over time (as opposed to more variable market demand influences such as interest rates, lending restrictions and income rates).

Figure 17: Napier Hastings New Dwelling Consents to Household Growth 1996-2019



⁴ 2017 and 2018 figures estimated from NZStats Population Annual Estimates, by dividing by the assumed household occupancy rates



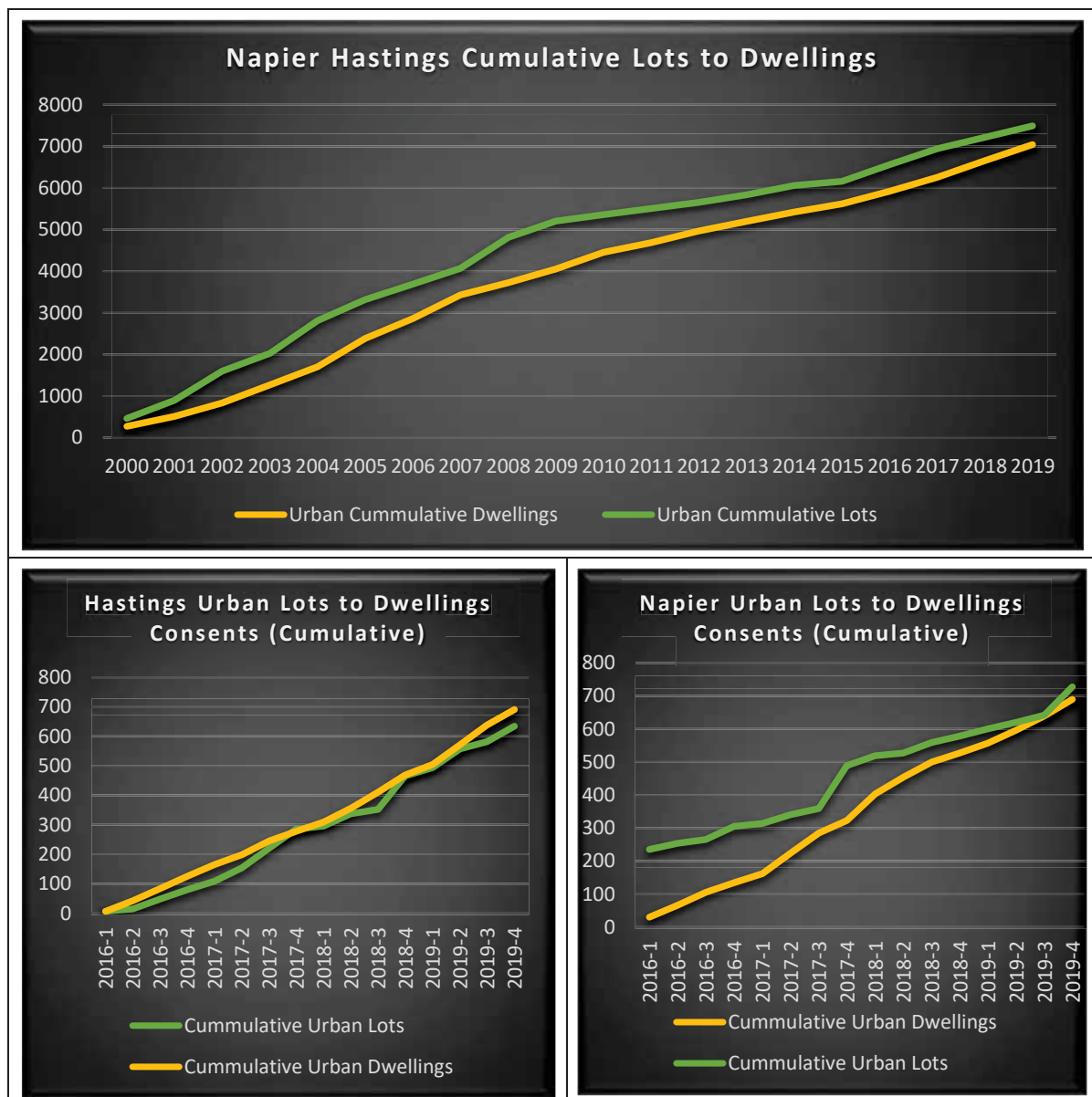
(Source MBIE/MHUD Dashboard)

- 7.2. Based on the 2018 household growth estimates the graphs show that for both Hastings and Napier (for the most part the rest of New Zealand outside of Auckland show a similar pattern) new house building outstripped household growth for the 14 years from 2002 to 2009 and thereafter kept pace to 2016.
- 7.3. It is likely that a backlog of under provision in housing from around the mid 1990's, was part of the reason for the high rate of construction from 2002 as the country came out of a period low/negative migration and 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.
- 7.4. However, from 2016 household growth rose significantly off the back of record in-migration from overseas (see section 9) and anecdotally from displacement of buyers from Auckland experiencing significant house price rises (See section 8). SNZ's population estimates for 2018 suggested the 2016-2017 influx of households may have been temporary and that while there may have been something of supply squeeze, over the previous two years, housing supply over the medium term had kept up with household growth. However that is now in question.
- 7.5. As discussed in section 4.9, SNZ population 2019 estimates for 2018 are based on the provisional 2018 Census results and are much higher than previously estimated in 2018. In addition the previous annual estimates from 2013 to 2018 upon which the above graphs are based are being reviewed by SNZ as a result of this and a revised method of estimating inwards migrations distribution.
- 7.6. Figure 17 reflects an estimate of what those changes may look like for household growth based on pro-rating the 2019 published 2013-2018 population increase back across over those five years, divided by average household occupancy. On this basis it is clear that there will likely have been a greater build up in the level of unmet pent up demand as a result of this sudden increase in in wards migration to the region.
- 7.7. Figure 18 below introduces a new indicator of supply/demand balances. With 2000 as the base year it compares the accumulated number of residential lots created against the

number of new dwellings constructed. Where a reasonable buffer of lots is maintained the market may be considered to be in balance. Where the buffer becomes too thin or negative then land availability may affect house prices or even new construction rates.

- 7.8. As can be seen, from 2000-2009 a reasonably healthy buffer was created, but this reduced after the GFC until around 2012, where it remained and remained reasonably steady thereafter. However, looking at the quarterly data from 2016 (by rebasing the analysis at 2016 Q1) there are indications that the buffer may be eroding. In Napier the release of the Guppy Road sites in late 2017 improved the situation, but this also appears to have been eroding with little new greenfields subdivision consents having been granted since early 2016, while noting that most of the Napier greenfields section releases have been staged development off large consents granted some years ago at Parklands and Te Awa.

Figure 18 Comparison of Lot Creation to Dwelling Construction

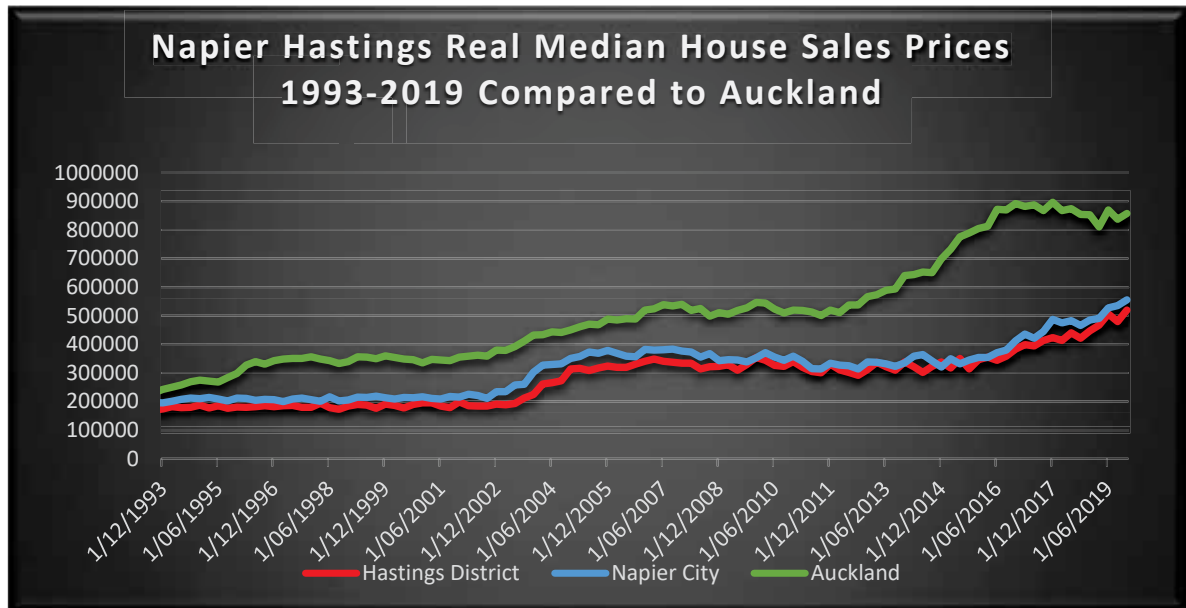


(Source: Napier City and Hastings District Council)

8. House Prices /Sales Activity

- 8.1. Figure 19 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 until 2016. Hawke’s Bay prices were relatively stable following the GFC following the last property cycle, but increased significantly from 2016, mirroring the pattern for vacant land sales, building activity and household (immigration) growth.

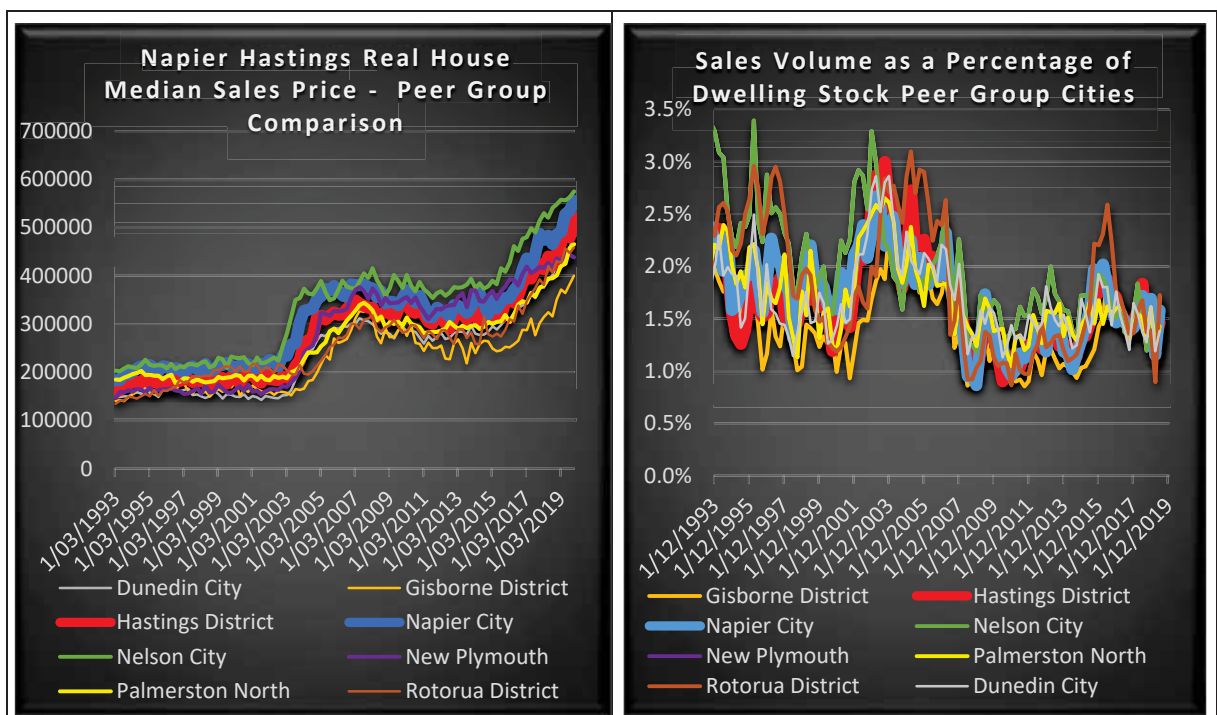
Figure 19: Napier Hastings 12 Month Rolling House Prices Compared with Auckland



(Source MBIE/MHUD Dashboard)

- 8.2. Figure 20 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 just local land supply issues. Interestingly residential property turnover was as high in the early to 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 2016. This suggests that sales volumes and prices may not be very strongly linked.

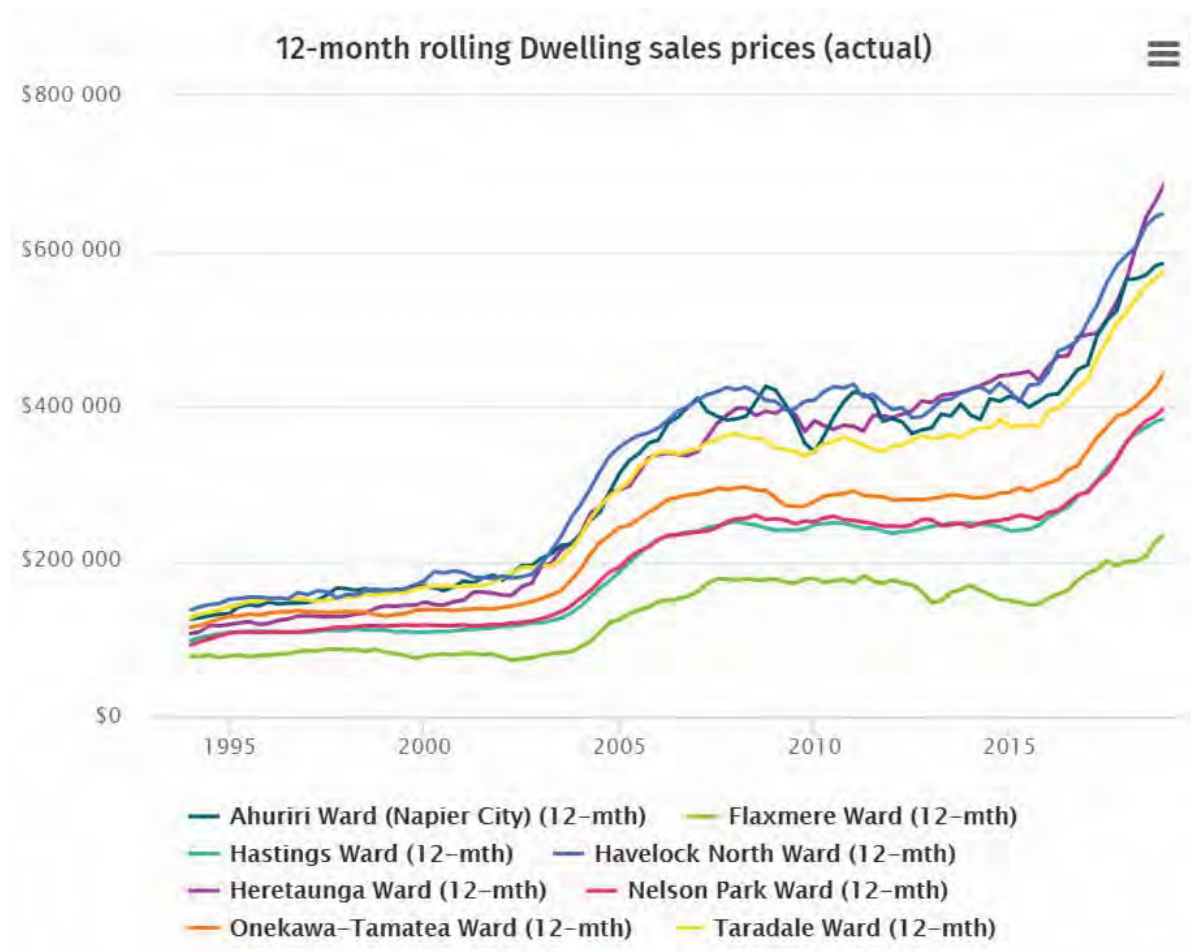
Figure 20: Napier Hastings Sales Activity and Prices Compared to Peer Group 1994-2019



(Source MBIE/MHUD Dashboard)

- 8.3. Figure 21 below shows the average house price by Local Authority ward. By and large the ward prices have tracked a similar pattern, generally 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. 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 exiting that market. The rapid increase in the Heretaunga Ward is likely at least partly reflective of the influence of new greenfield subdivisions developments, with average prices exceeding those for Havelock North from around the middle of 2018.

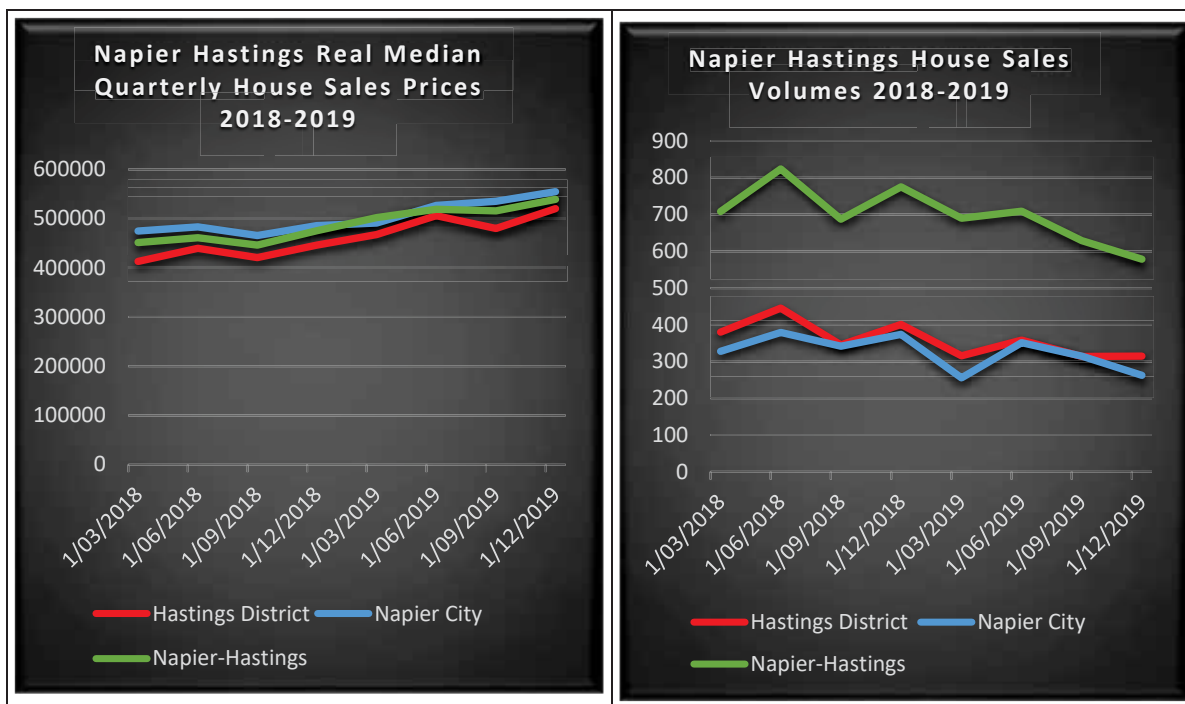
Figure 21: 12 Month Rolling Dwelling Sales Prices for Selected Locations



(Source MBIE/MHUD Dashboard)

- 8.4. Figure 22 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 reducing level of sales volume accompanied by a steady rise in prices. This again suggests that sales volume and prices are not strongly linked or at best inversely linked (unlike the 2002-2008 property cycle).

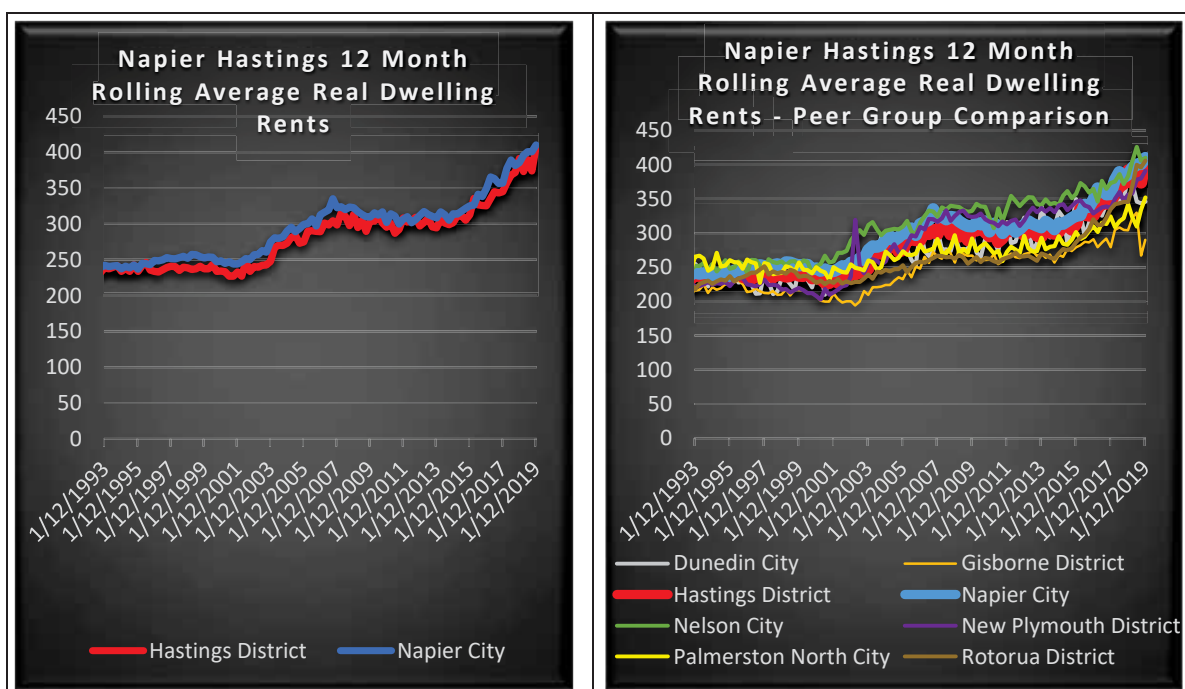
Figure 22: Napier Hastings Quarterly House Sales Volume and Prices



(Source MBIE/MHUD)

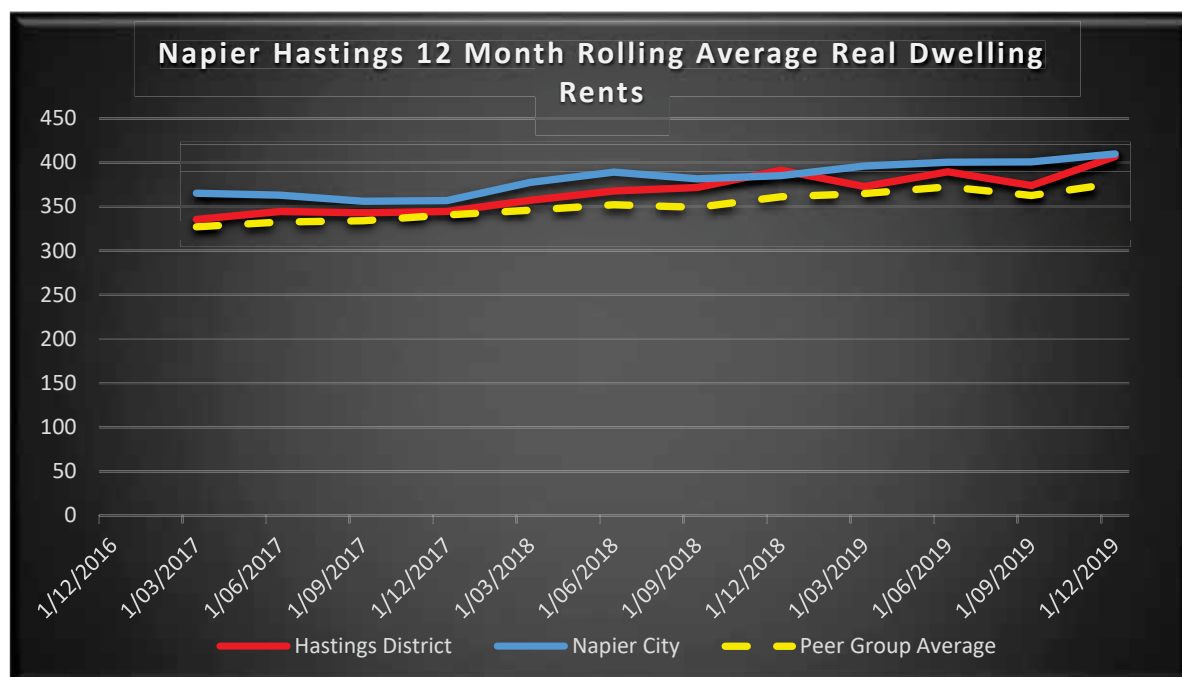
- 8.5. Looking at the rental market, unsurprisingly the trend for rental movements has mimicked that for house prices over time, as shown in Figure 23 below, but at a faster pace for Hastings and Napier than the peer group cities (with the exception of Palmerston North) and rents overall are at the upper end of the range. The more recent quarterly data from 2016 is shown in Figure 24 and indicates a continuation of this trend. Like house prices, median rents were slightly higher in Napier than Hastings but that gap closed at the end of 2018 and again at the end of 2019. Again rents in Hastings and Napier are higher than for the peer group average.

Figure 23: Napier Hastings 12 Month Rolling Median Dwelling Rents



(Source MBIE/MHUD Dashboard)

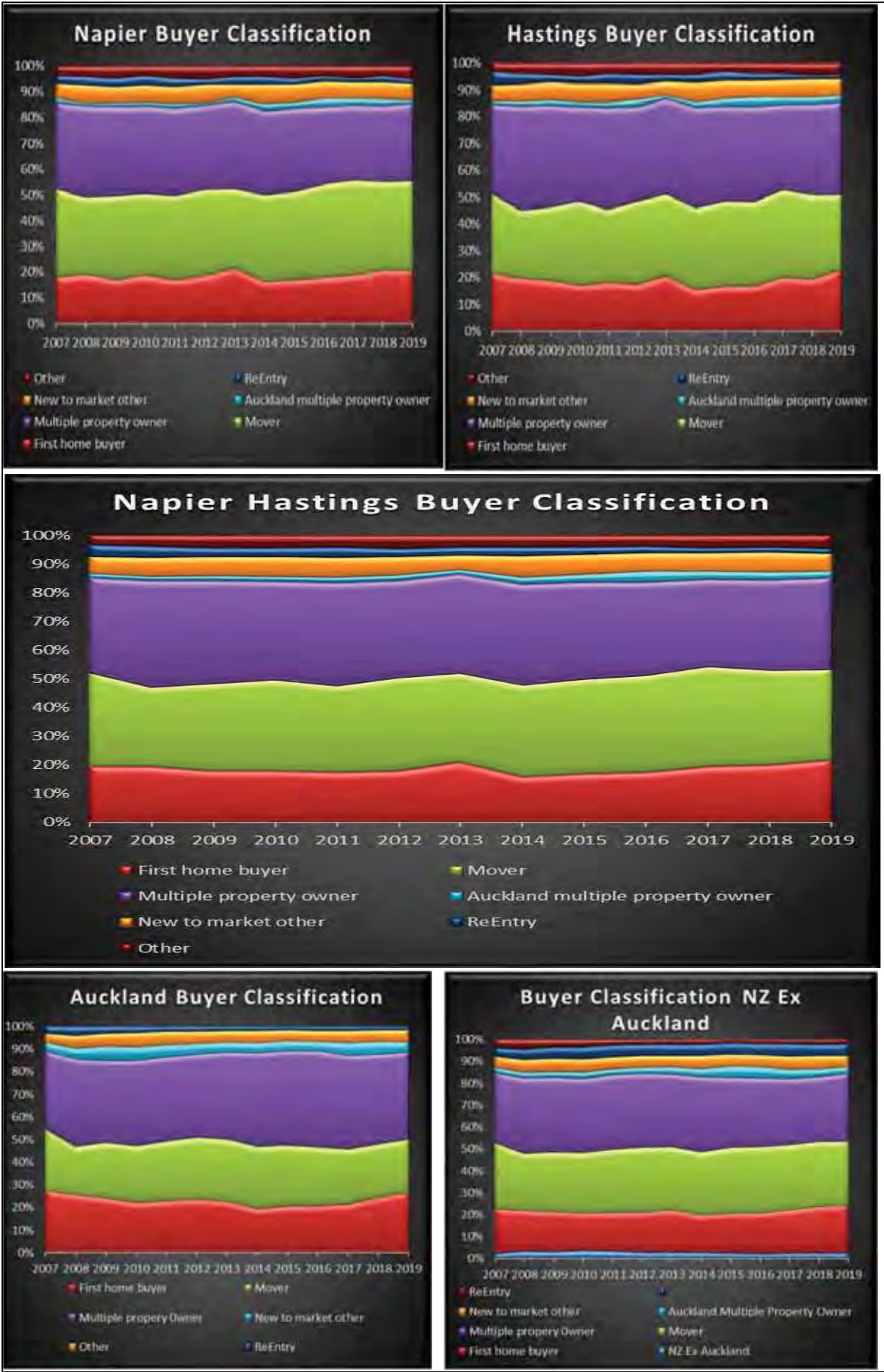
Figure 24: Napier Hastings Monthly Average Rental Movements 2017-2019



(Source MBIE/MHUD)

- 8.6. 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.
- 8.7. Figure 25 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 the rest of New Zealand. 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 two years however, the proportion of movers into Hastings has fallen back in favor of first home buyers and multiple property owners (investors - but not from Auckland). This is against the trend for Napier, Auckland and the rest of New Zealand, but the movement is small.

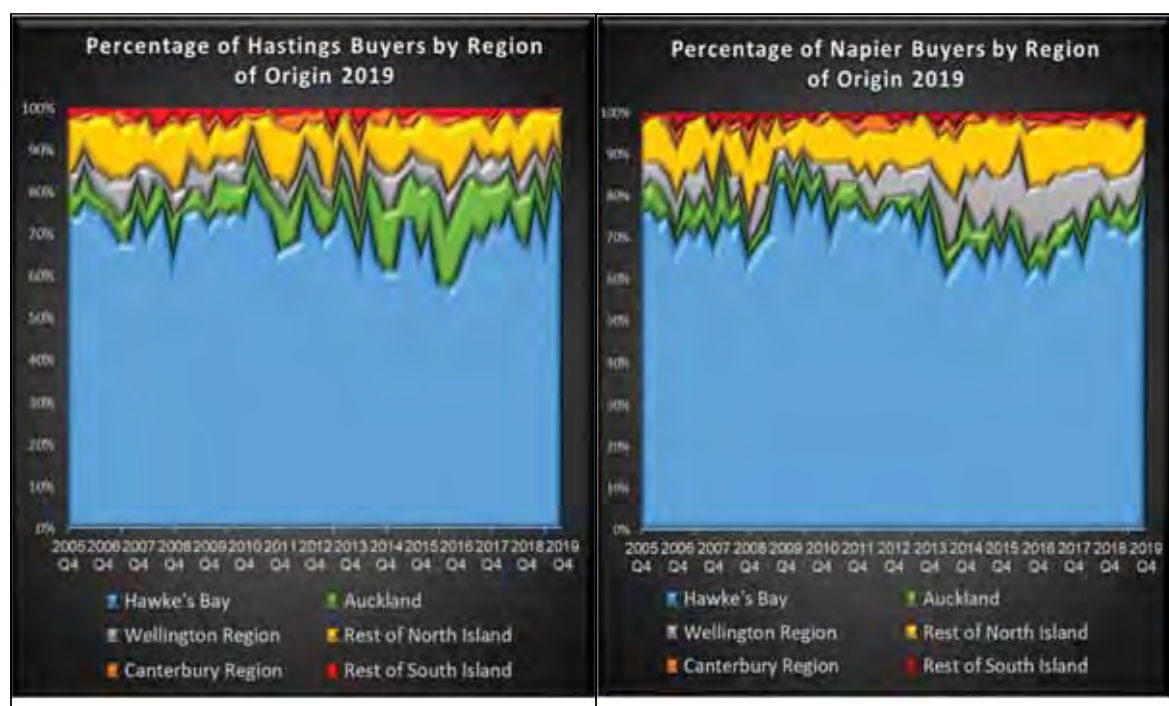
Figure 25: Napier Hastings House Buyer Classification 2009-2019 with Auckland and Rest of New Zealand Comparisons



(Source Core-logic)

- 8.8. A greater proportion of buyers in Hastings originated from the Auckland Region between 2014 – 2017, as shown in Figure 26, while in Napier there were increasing numbers of buyers from Wellington (and to a lesser extent the rest of the North Island, excluding Auckland). As a percentage, Auckland buyers in Hastings increased from 7% to around 13%, of the market (around 150 new buyers) peaking at 16% in 2016, which was broadly consistent with anecdotal information from property industry sources. In Napier the Wellington buyer increase was more subdued going from 9-13% with a peak at 15%.
- 8.9. From 2018 buyer patterns seem to have been returning to historic proportions. Auckland buyers now seem to represent only around 6-7% of current buyers and other parts of New Zealand around 20%.

Figure 26: Origin of Buyers Purchasing Property in Napier Hastings 2005-2019



(Source Core-Logic)

9. Housing Affordability

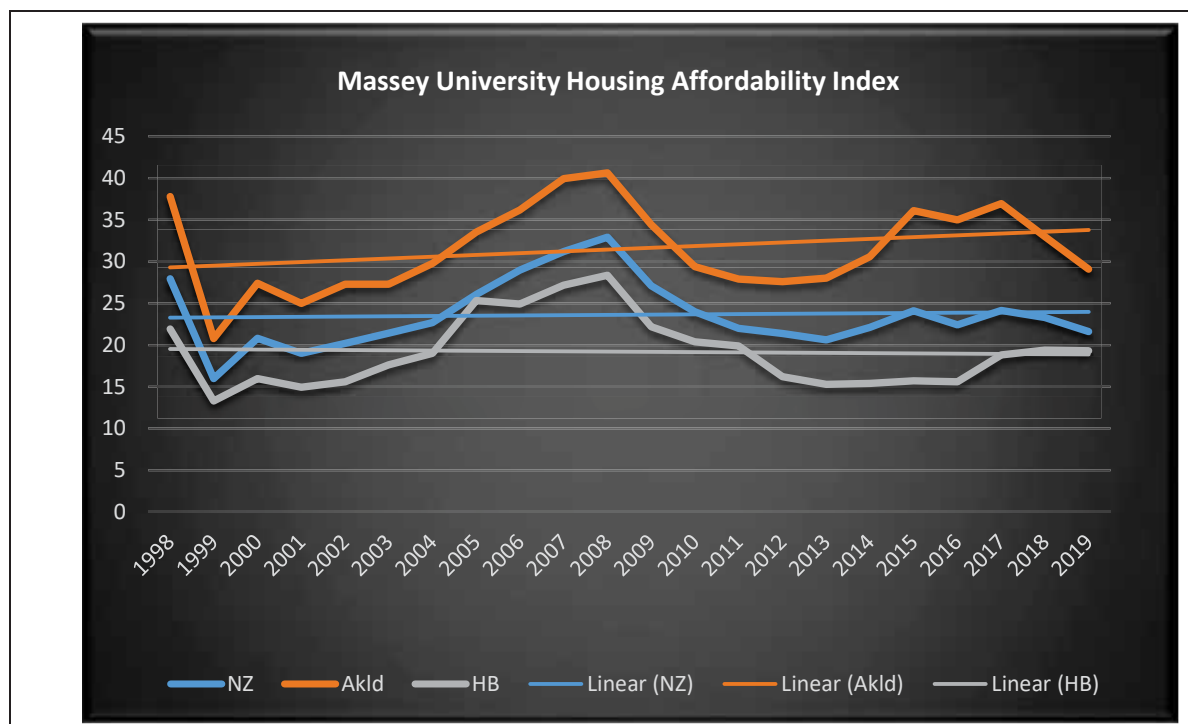
- 9.1. The above data all provide indicators of the various cost and supply and demand pressures on housing. When combined with measures of income and interest rates, an overall view of housing affordability can be determined. One of these measures is the long running Massey University Housing Affordability Index, which takes into account median disposal income and the costs of servicing a standard mortgage. Figure 27 below shows the change in the index for Hawke's Bay relative to Auckland and New Zealand from 1985 to 2019⁶, while Table 4 compares HB with the other New Zealand Regions since 2018.

⁵ Mortgage Interest rates were up around 18-20% around the late 1990's

⁶ At the time of writing Massey University had still not published the fourth quarter results so the third quarter is used here. For the annual comparisons.

- 9.2. Housing affordability in Hawke's Bay deteriorated from 2016 to 2017, but this stabilised in 2018 and 2019. Hawke's Bay's position relative to other regions has remained reasonably steady at 6/¹² most affordable in 2018 to 7/¹⁶ most affordable in 2019. Interestingly Auckland Housing affordability, widely thought to be influencing migration into some regions and therefore housing affordability in those locations, improved significantly over 2018 and 2019.

Figure 27: Hawke's Bay Massey University Housing Affordability Index 1998-2019



(Source Massey University)

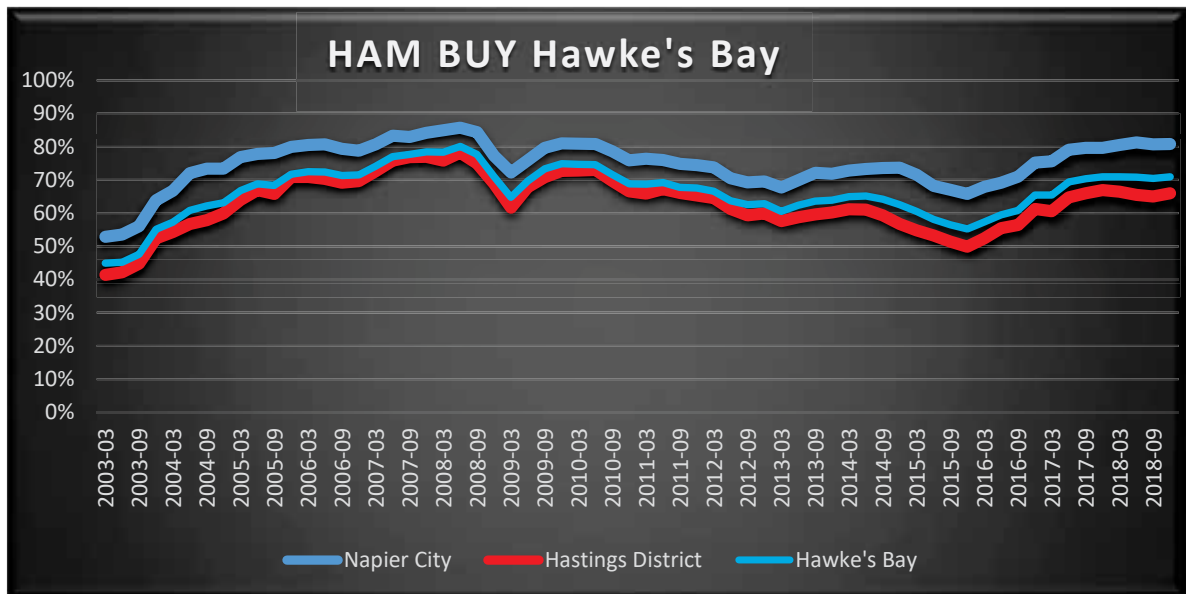
Table 4 Massey University Home Affordability Index Regional Comparison Nov 2018-August 2019

HOME AFFORDABILITY INDEX				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	Aug 2018	May 2019	Aug 2019	Improvement	Decline	Improvement	Decline
Northland	21.4	20.0	21.5		0.5%		7.5%
Auckland	33.8	31.7	29.1	13.8%		8.0%	
Waikato	23.3	22.1	21.2	9.2%		4.1%	
Bay of Plenty	24.7	24.0	23.8	3.6%		1.0%	
Gisborne	16.3	20.4	17.9		9.5%	12.2%	
Hawke's Bay	19.2	18.5	19.3		0.8%		4.8%
Manawatu/Whanganui	13.5	13.9	14.9		10.6%		7.5%
Taranaki	12.8	13.1	14.0		9.0%		6.9%
Wellington	22.2	21.6	22.0	0.7%			1.8%
Tasman	30.7	27.4	25.8	15.8%		5.6%	
Nelson	24.5	25.1	25.7		5.0%		2.4%
Marlborough	21.6	19.5	19.4	10.0%		0.6%	
West Coast	10.0	7.5	8.7	13.5%			15.3%
Canterbury	18.2	17.5	17.0	6.5%		3.2%	
Otago	19.6	20.0	19.8		1.0%	0.9%	
Southland	10.6	11.4	12.4		17.0%		8.5%
All Regions	22.8	22.2	21.5	5.2%		2.6%	

(Source Massey University)

- 9.3. Another measure(s) of affordability relates to trends for first home buyer households (HAM Buy). Figure 28 below shows the proportion of potential first home-buying households whose 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 the national average. As at the end of 2018 that would be 70% for Hawke's Bay compared to around 80% in 2008 i.e. improving post GFC, but this starting heading back up in 2016, although steadying after that. This is consistent with the peer group cities as shown in Figure 29 below.

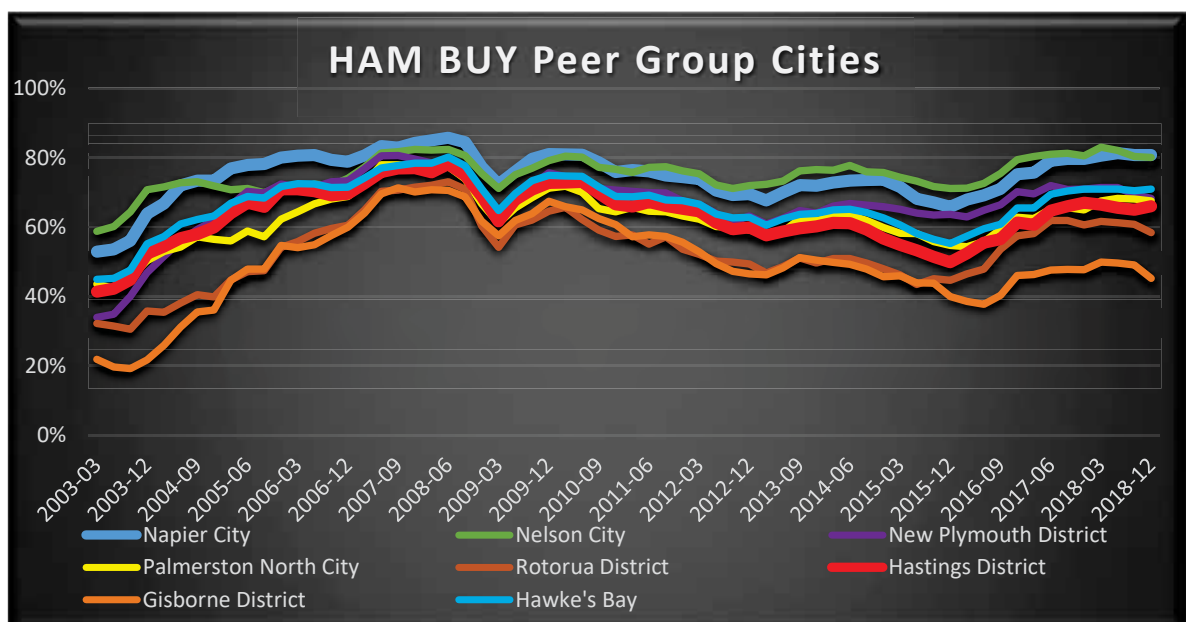
Figure 28: Napier Hastings HAM First Home Buyer Affordability Measure 2003- 2019



(Source MBIE/MHUD Dashboard)

- 9.4. Looking at the peer group results shown in Figure 29 we also see that Napier is amongst the least affordable for first home buyers and Hastings is in the middle of the group.

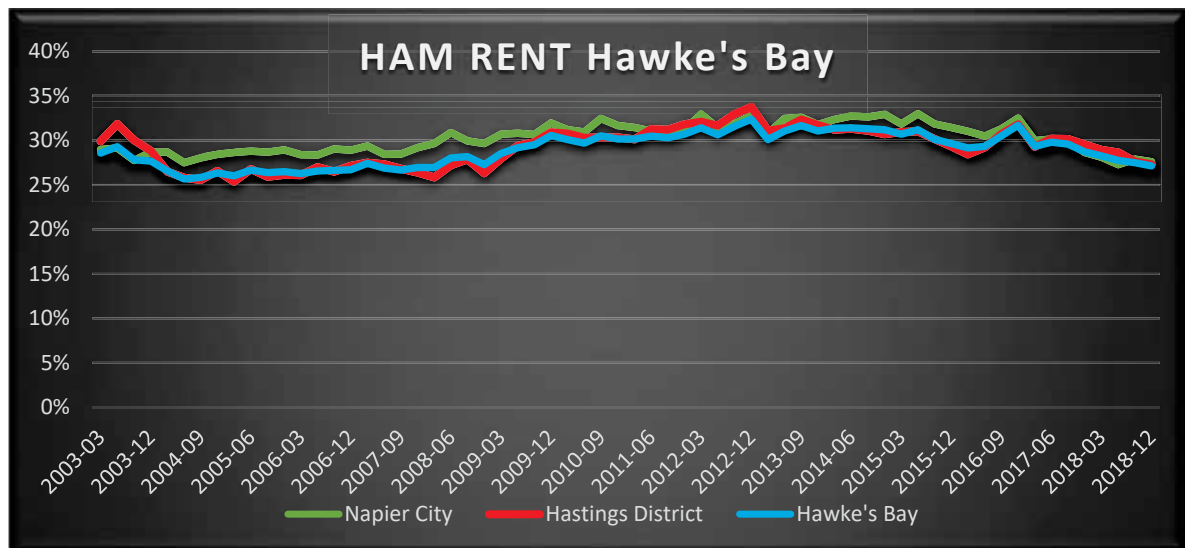
Figure 29: HAM First Home Buyer Affordability Peer Group Comparison 2019



(Source MBIE/MHUD Dashboard))

- 9.5. Figure 30 shows a similar measure for renters. It shows the percentage of renters with below average disposable income after household rents, so a lower number indicates better affordability.

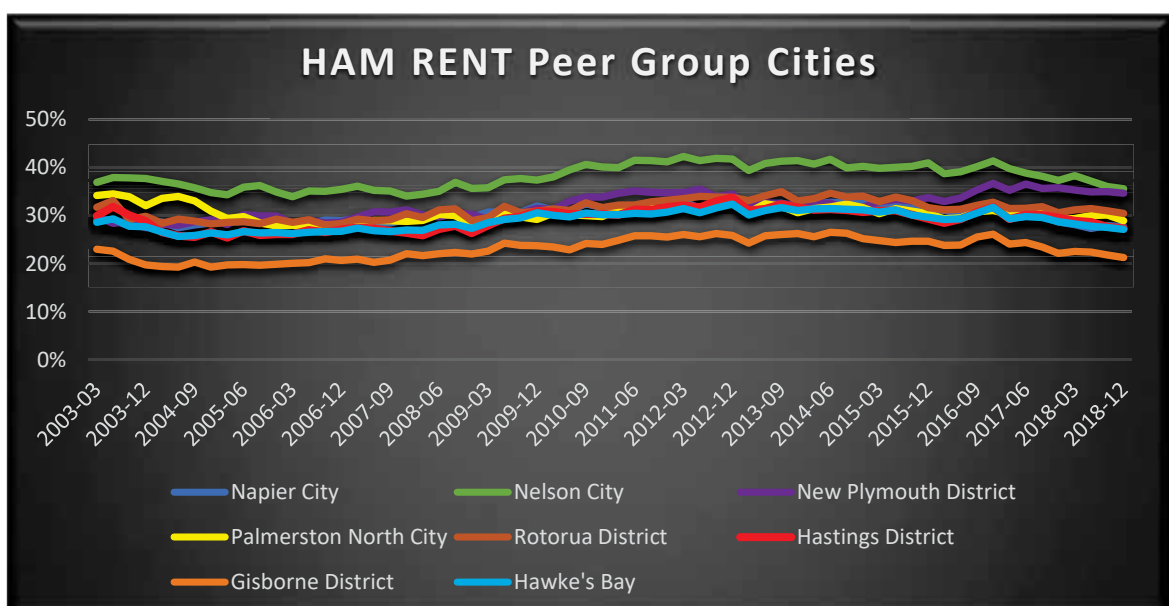
Figure 30: Napier Hastings HAM Rental Affordability Measure 2018



(Source MBIE/MHUD Dashboard)

- 9.6. Rental affordability deteriorated from 2008 to 2016, but surprisingly, against the HAM buy statistics 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.
- 9.7. Figure 31 shows the peer group results for the HAM Rent measure, which shows a similar pattern of improving affordability even with increasing rents. It also shows that the Hawke's Bay twin cities sit in the middle of the group, which is inconsistent with actual rents in Figures 23 and 24, suggesting slightly higher income profiles for renters in Hawke's Bay.

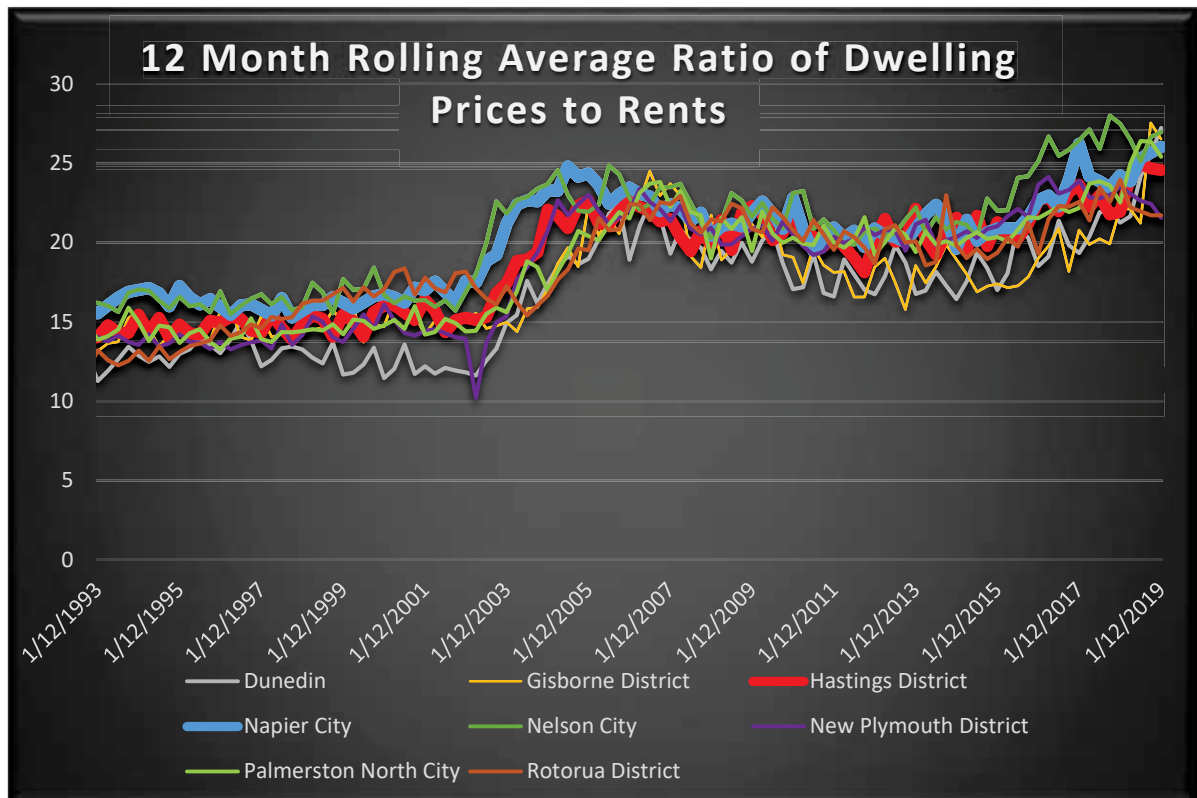
Figure 31: Napier Hastings HAM Rental Affordability Peer Group Comparison



(Source MBIE/MHUD Dashboard)

- 9.8. Figure 32 shows the ratio of rents to house prices for the peer group cities. Where house prices are tracking up relative to rents this creates a bigger jump to home ownership. The graph indicates that the rent price ratio has not fully recovered from the step change from the last property cycle, following the GFC. Of further concern is the fact that the ratio of house prices to rents has shown a yet another significant increase as house prices rose in 2016. This could signal a lagged rise in rents and therefore deterioration in the HAM Rent measure of affordability in the near term.

Figure 32: Peer Group Cities 12 Month Rolling Ratio of Dwelling Sales Prices to Rents 1993-2019



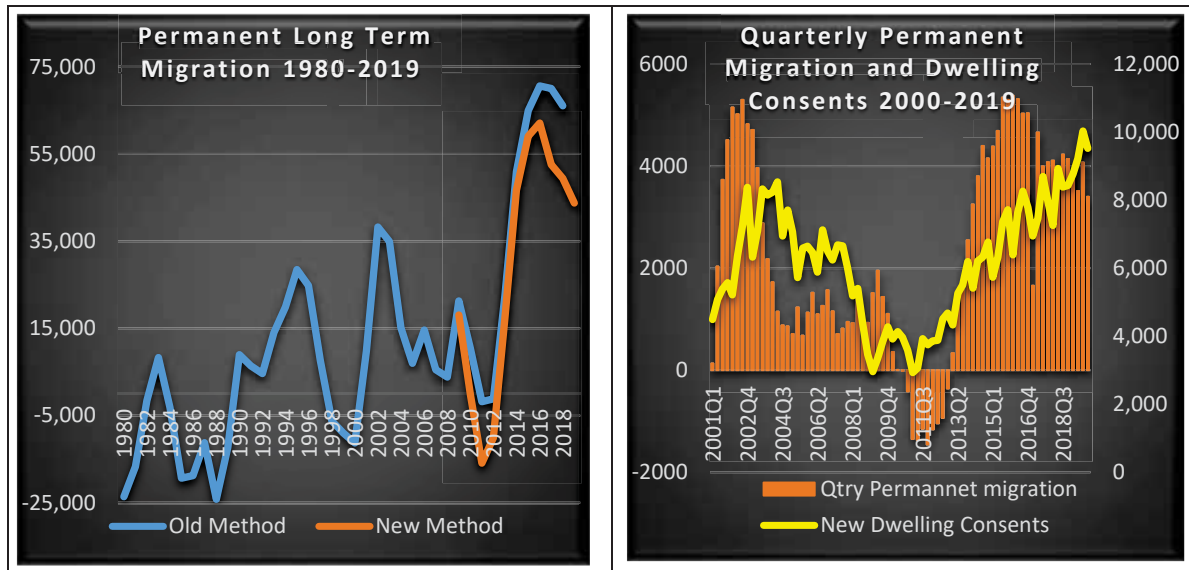
(Source MBIE/MHUD Dashboard)

- 9.9. While overall home affordability in the region still sits well relative to the rest of New Zealand, it deteriorated as house prices rose quickly on the back of net migration, a buoyant local economy, low interest rates and some pinch points in residential land supply. This resulted in rapid price movements over the last three years.

10. Migration

- 10.1. As mentioned earlier SNZ have changed their method of calculating net international migration and backcast that method to 2010. Both methods are shown in Figure 32 which tracks permanent long term migration from 1980. Figure 33 also indicates new dwelling construction struggled to keep pace with the significant increase in international in migration from around 2014-2015, but falling migration rates recently mean building rates are now able to start making some headway into new demand and the backlog.

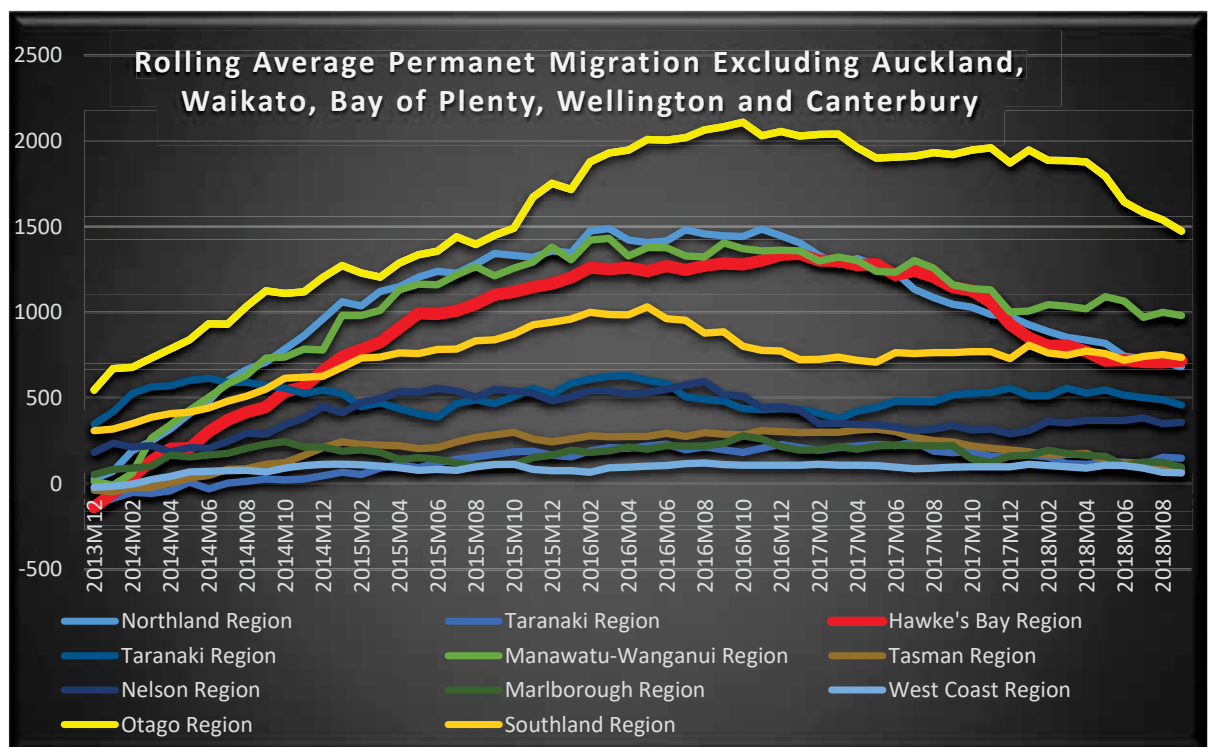
Figure 33: New Zealand Net Migration 1980-2019



(Source: Adapted from StatsNZ)

- 10.2. This rapid increase in international migration into New Zealand resulted in increased migration into the regions from overseas as shown in Figure 34. Hawke's Bay along with a number of other regions experienced significant increased inwards international migration (1000 p.a) from mid-2015 through to the end of 2017, plateauing out at round 750 p.a. through 2018.

Figure 34 Permanent Migration to the Regions 2013-2018

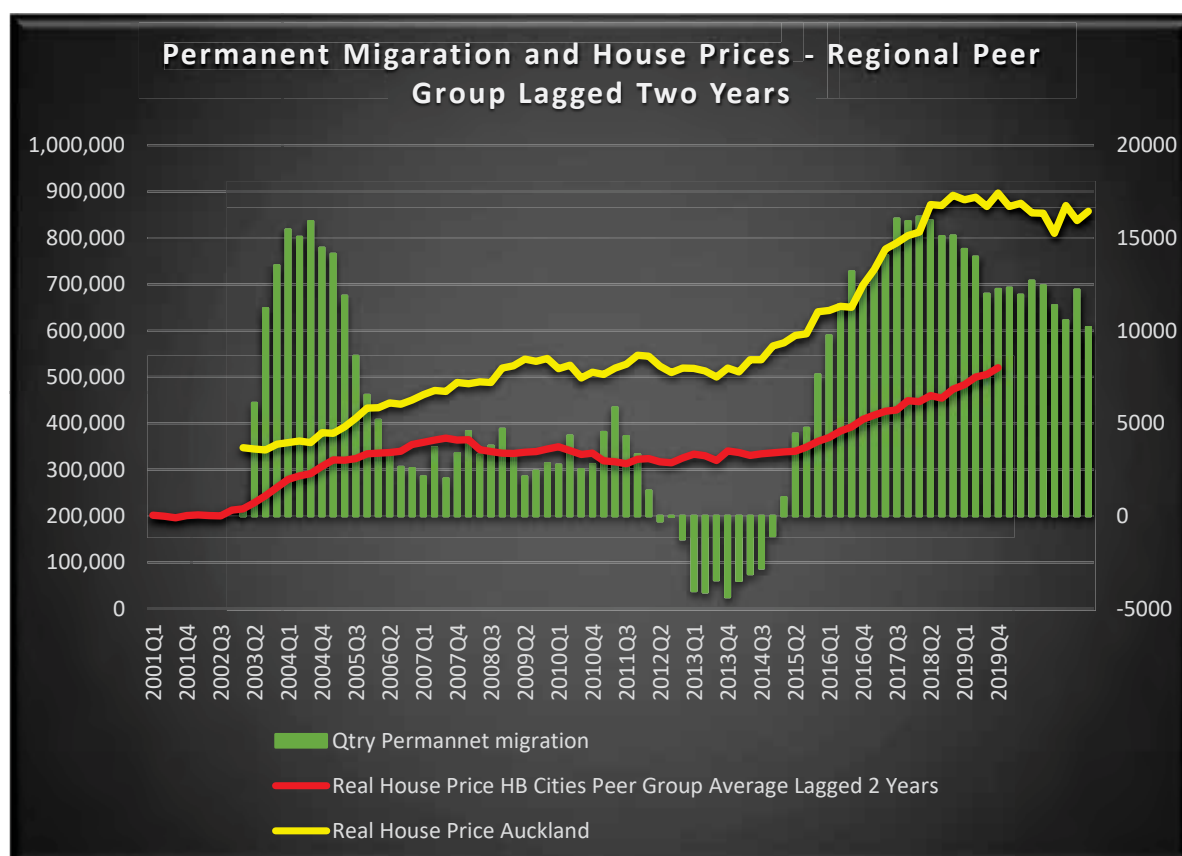


(Source: SNZ)

- 10.3. This coincides with increased housing pressure in Hastings and Napier from around 2016 as discussed earlier contributing higher house prices. This relationship between immigration, Auckland House prices and Napier-Hastings (and peer group cities) prices lagged by two

years is shown in Figure 35. It indicates are fairly quick impact of migration on house prices in Auckland, but a delayed response before this was felt in the regions.

Figure 35: Relationship between Migration and House Prices 2000-2019

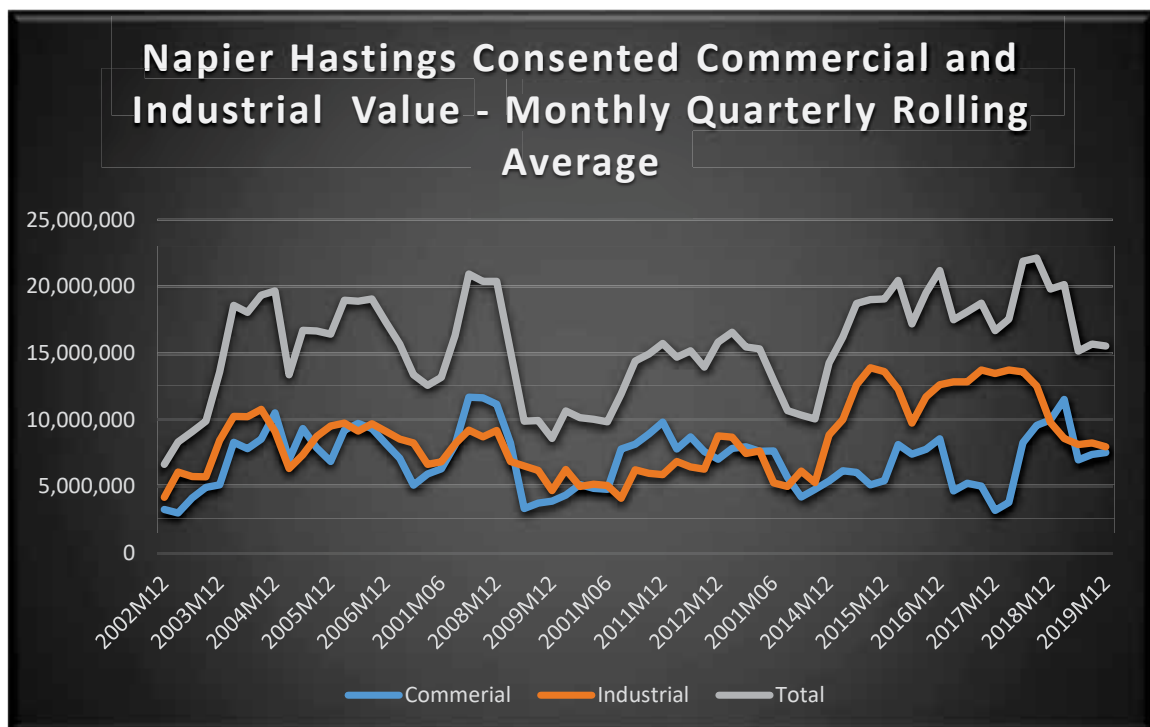


(Source: Adapted from StatsNZ and MBIE/MHUD Dashboard)

11. Business Building Activity

- 11.1. Figure 36 below shows the total value of commercial and industrial consents issued since 2000. Industrial activity peaked just before the GFC, but started reaching those levels again off the back on new industrial developments over 2016-2017, but started falling away in 2018-2019. Commercial activity followed a similar pattern to industrial prior to the GFC, but has been relatively subdued since until 2018-2019.

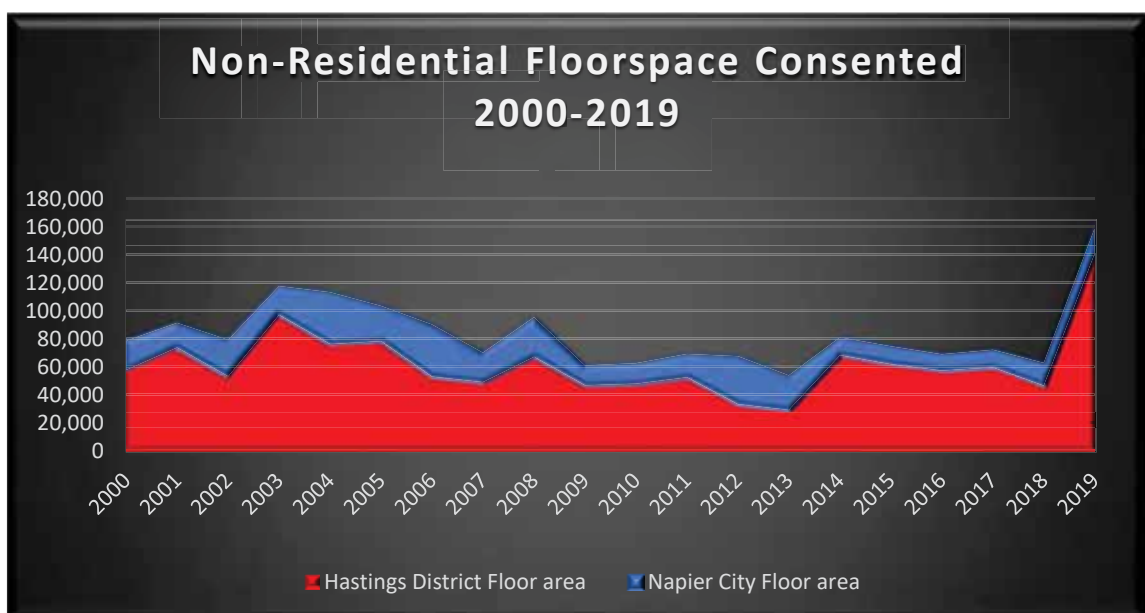
Figure 36: Twelve Monthly Rolling Building Consent Values for Napier Hastings Commercial and Industrial Buildings 2003-2019



(Source StatsNZ)

- 11.2. Figure 37 shows that the total non-residential floorspace 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, and a big spike in 2019.

Figure 37: Napier Hastings Non Residential Floorspace Consented 2000-2019

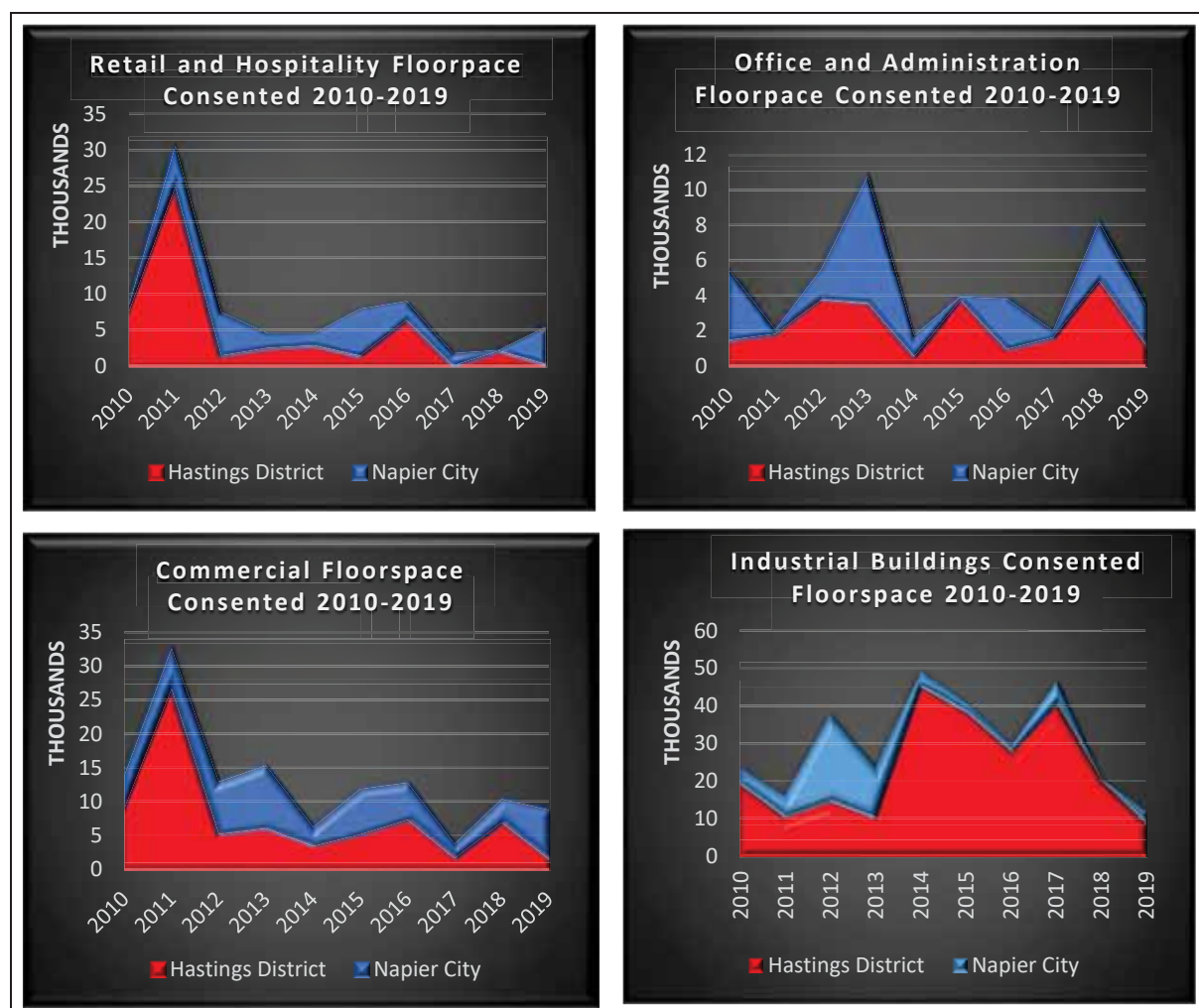


(Source StatsNZ)

- 11.3. Figure 38 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. It also reveals the predominance of Hastings for industrial expansion.

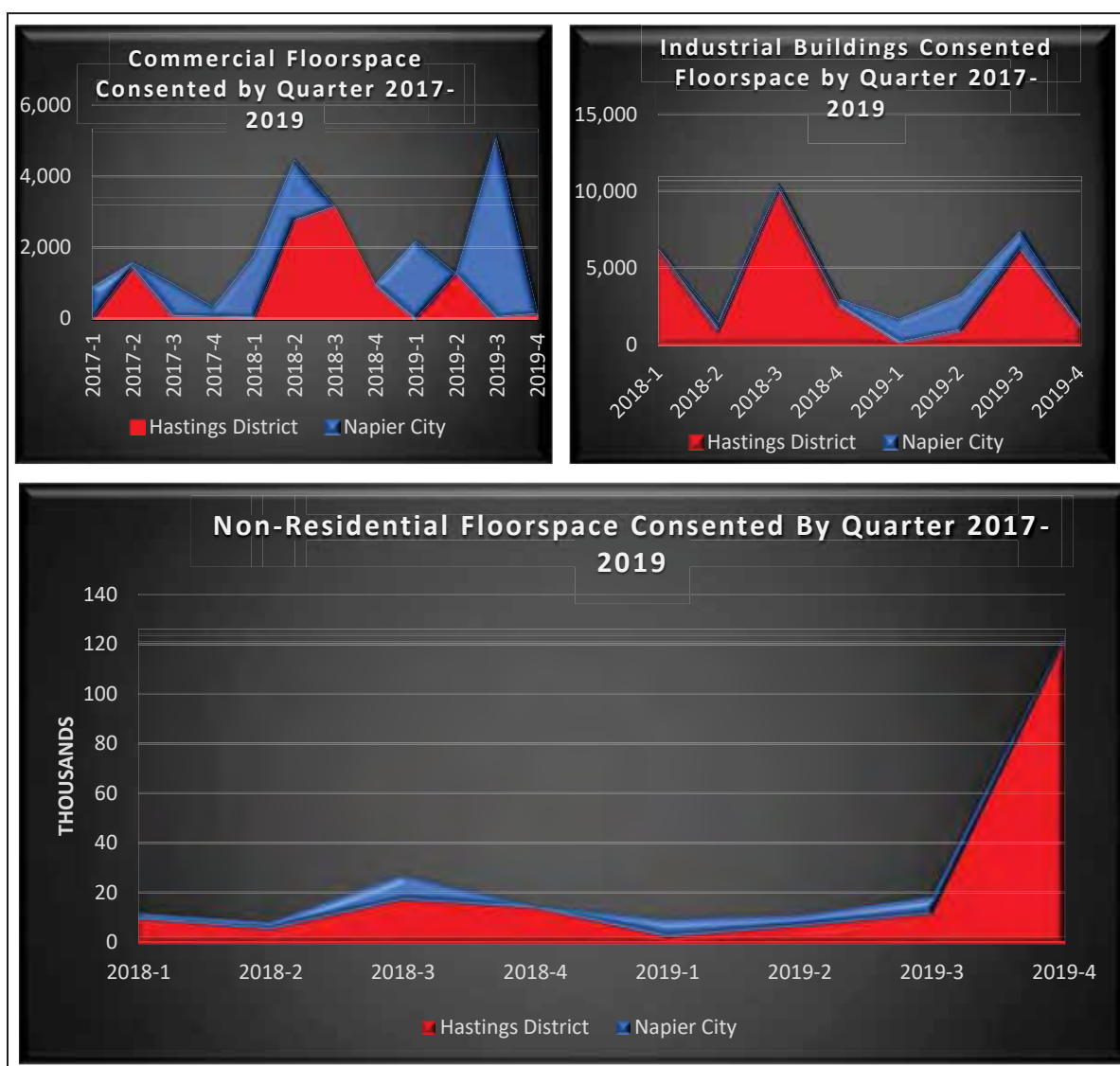
Figure 38: Napier Hastings Industrial and Commercial Floorspace Consented 2010-2019



(Source StatsNZ)

- 11.4. 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 39 below. The figures are again dominated by Hastings, apart from the third quarter of 2019, where potential hotel developments and large inner city redevelopment projects approved in Napier are evident. This also reveals that the 2019 spike in non-residential floorspace in Hastings occurred in the fourth quarter and was not due to industrial or commercial activity. Further investigation reveals that bulk of the new floorspace is due to two large greenhouses (netting) being erected for Gourmet Blueberries in Hastings.

Figure 39: Napier Hastings Quarterly Commercial Industrial and Total Non-Residential Floorspace m² Consented Last two Years



(Source StatsNZ)

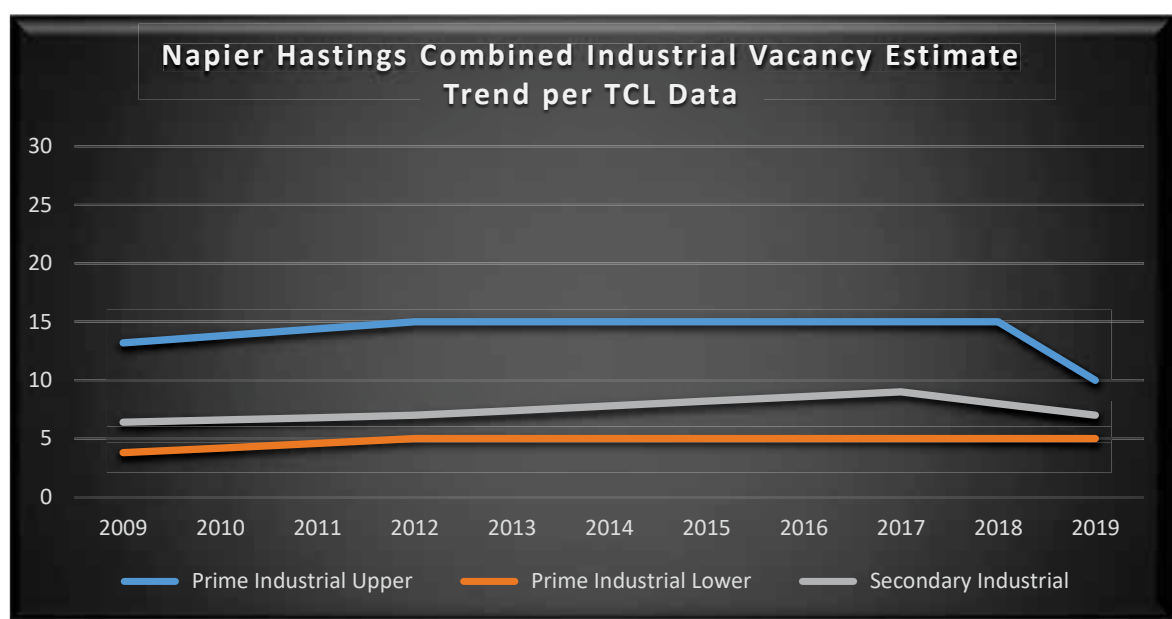
12. Business Vacancy

- 12.1. The graphs that follow have been adapted from estimates of business vacancy supplied by Turley & Co for industrial, retail and office activity for the combined Napier Hastings areas⁷. While data for intervening years is available from Turley & Co for more detailed analysis, the graphs below reflect discrete estimates for 2007, 2012, and annually from 2017 (based on 2nd and 4th Quarter estimates made at those times), to give a broad indication of a trend over 10 years.
- 12.2. Figure 40 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 and fell over 2019. Ordinarily this would suggest constrained supply for prime industrial property, however the Hastings District Council's recent substantial

⁷ 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.

rezoning of new industrial areas at Irongate, Omaha North and the Tomoana Food Hub should help to ease supply issues within the existing property market even if the economy stays buoyant.

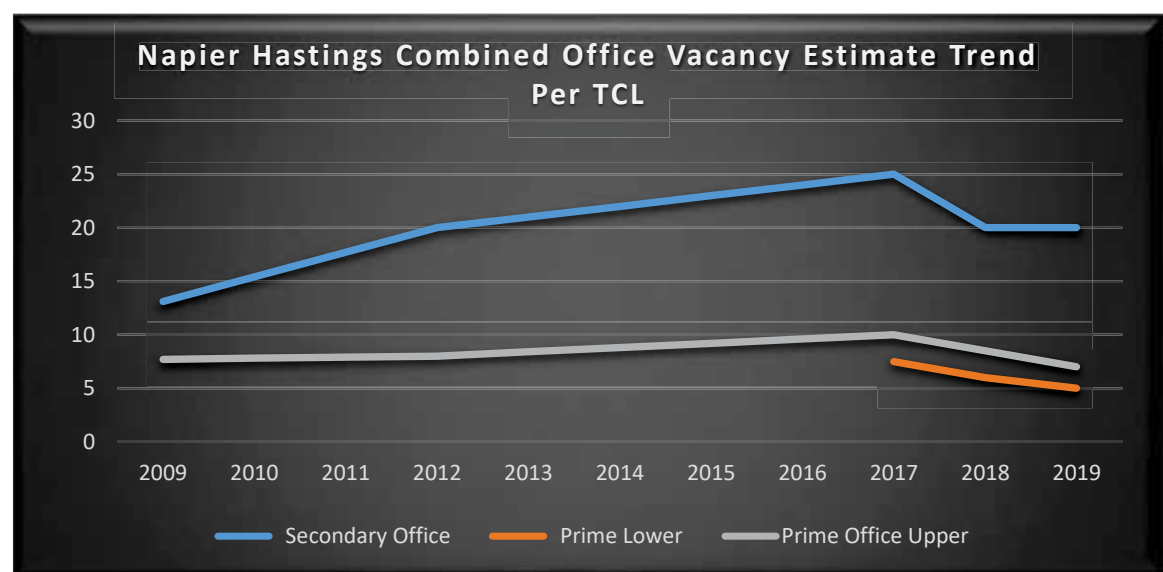
Figure 40: Napier Hastings Combined Industrial Vacancy Estimate Trend



(Source Turley & Co Data.)

12.3. Figure 41 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 and we now see both primary and secondary office property vacancy rates dropping in 2018 and 2019. With the improved economic conditions and rationalisation of stock upon redevelopment.

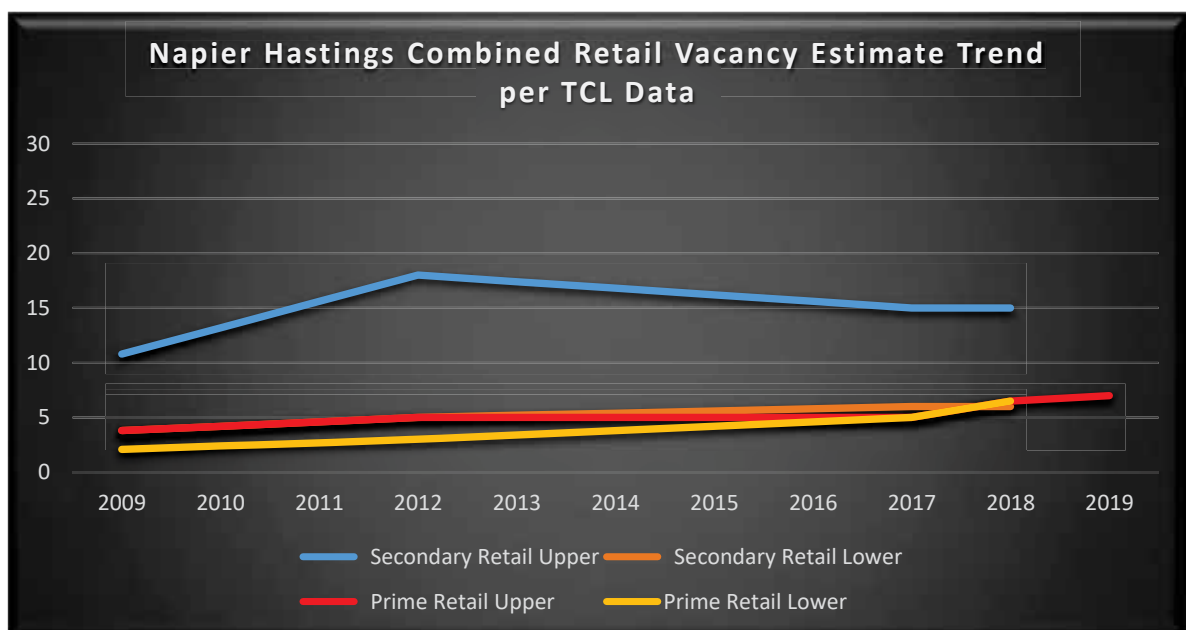
Figure 41: Napier Hastings Combined Office Vacancy Estimate Trend



(Source Turley & Co Data)

- 12.4. Figure 42 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. From 2019 only one vacancy figure is given for retail representing the primary component of the market.
- 12.5. Although trending upwards prime retail vacancy remains very low. Secondary property trended upwards after the GFC until 2012 then fell as a result of a more buoyant economy. 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 42: Napier Hastings Combined Retail Vacancy Trend



(Source Turley & Co Data.)

- 12.6. Overall, building activity data and property vacancy estimates indicate a continuing strong demand for commercial and industrial property, but possibly slightly below peak over the last year or two.

