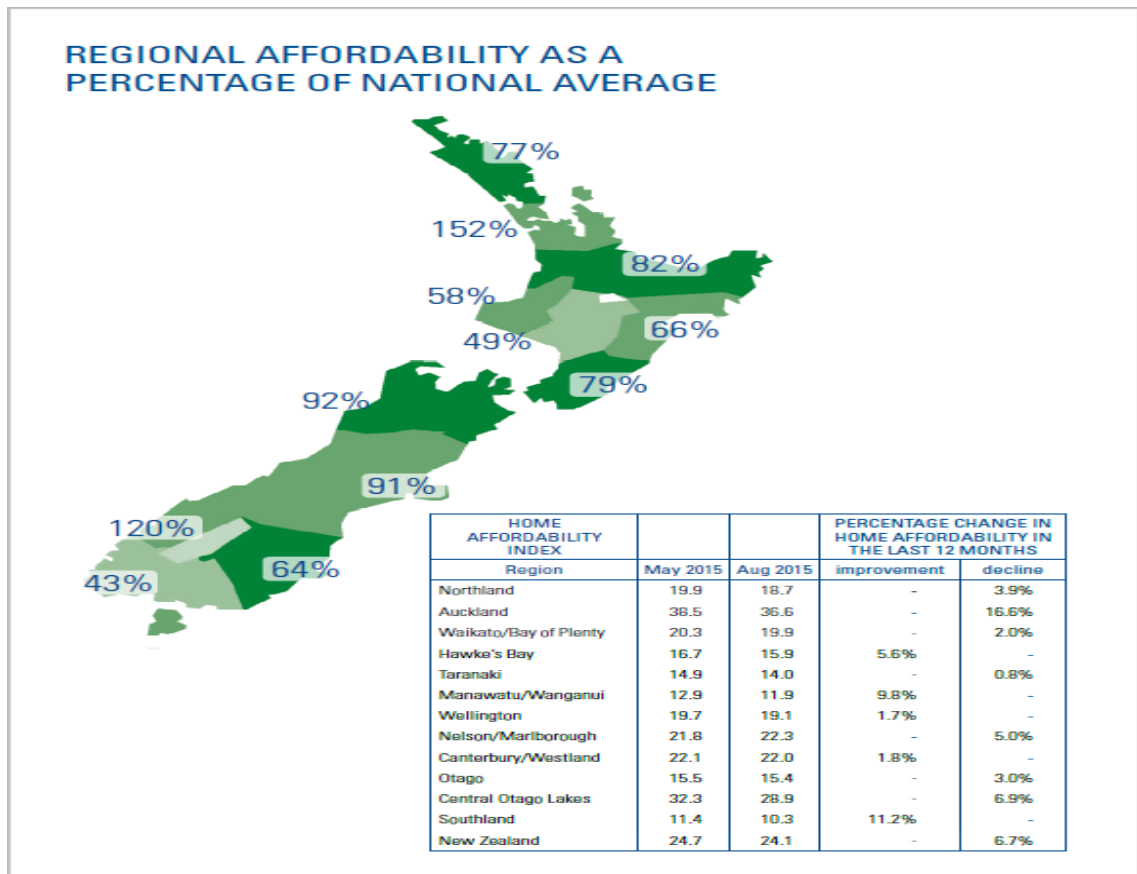


Heretaunga Plains Urban Development strategy 2015-2045



Review of Greenfield Land Supply and Housing Affordability February 2016

1.0 Purpose of Report

- 1.1 A lack of Greenfields land supply can put upward pressure on housing prices, particularly in faster growing urban areas. This report examines the forward greenfields land supply provided for in HPUDS 2010 and relative housing affordability in the Hawke's Bay Region. It concludes that while there may be some temporary supply issues surrounding delivery of some greenfields growth areas, this has not yet impacted on housing prices generally and relative housing affordability generally is unlikely to be significantly impacted in the short to medium term, provided these temporary supply issues are addressed.
- 1.2 The report concludes that housing affordability is affected by many factors other than land supply and that the land supply scarcity component is a small part of the overall cost of a new build in Hawke's Bay. Land supply issues do not appear to have impacted significantly on section and house prices in the HPUDS area to date and despite lower overall medium incomes Hawke's Bay fairs comparatively well with the rest of New Zealand.
- 1.3 In terms of land supply, there is total of thirty years supply potentially available which is equivalent to the HPUDS timeframe. There are however, short to medium terms issues in supply in Havelock North and Frimley (Lyndhurst) and potentially at Te Awa which need to be addressed.
- 1.4 With reducing projected household growth and a move towards greater intensification, not all the identified greenfields growth areas will potentially be needed, so some of the areas less desirable to the market may not be needed in the longer term.

2.0 Housing Affordability Generally

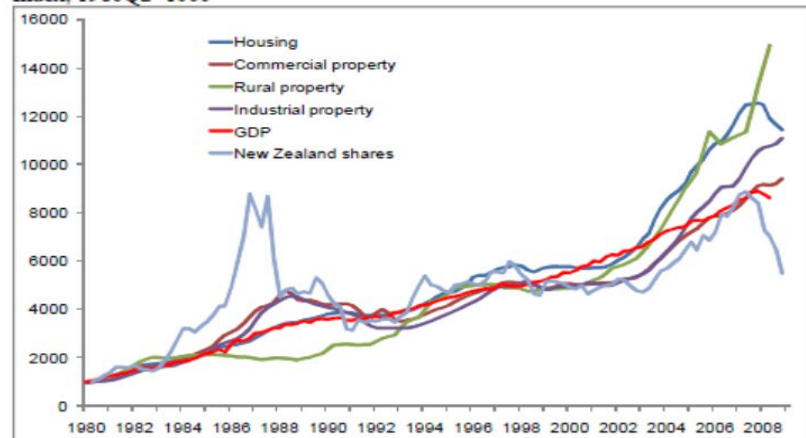
- 2.1 Home ownership is regarded as an important part of New Zealand's national identity. However, there is a growing disparity between incomes and housing affordability. This is a complex issue with a range of contributory factors.
- 2.2 The New Zealand Productivity Commission in 2012 noted:

"The housing market boom in the 2000's was not unique to new Zealand. A number of other OECD countries had a similar experience, pointing to a confluence of global influences as having been at play...in the future, one of the central challenges is how better to manage house price inflation expectations and monetary/credit expansions. The emerging development of macro-prudential policy frameworks and instruments provides one, if not the main, way forward.
- 2.3 A series of complex macro and micro economic factors are at play as well as societal and demographic changes over time. The Commission's report was focussed particularly on Auckland and perhaps to an extent a few other faster growing metropolitan areas.
- 2.4 At a national level the following observation are made by way of backdrop to housing affordability locally.

1. The Auckland situation appears quite different to the rest of New Zealand, yet it will strongly influence national trend data, public perception and market behaviour.
2. Nominal house prices largely tracked GDP growth from 1980 until the 2002 property boom as shown in Figure 1 below, but this was across all property classes, so residential land shortages do not appear to have been the primary driver.

Figure 1 Price Indexes for Property Class to GDP

Figure 6 Price indexes for various asset types
Index, 1980Q2=1000

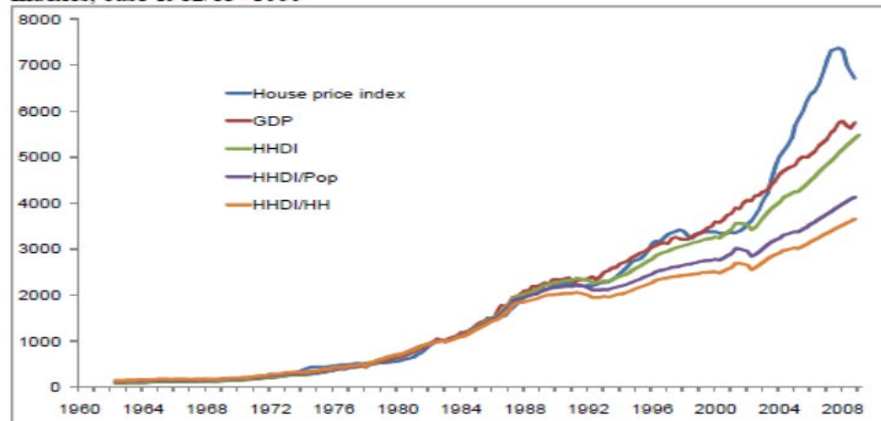


Sources: Quotable Value, Statistics New Zealand, NZX, Reserve Bank of New Zealand

3. Real disposable incomes increased from 1992 as shown in Figure 2 below, but at a lower rate than GDP, but reducing interest rates from a 1999 peak increased borrowing capacity and helped offset house price rises relative to income and increased demand.

Figure 2 GDP Household Incomes and House Prices

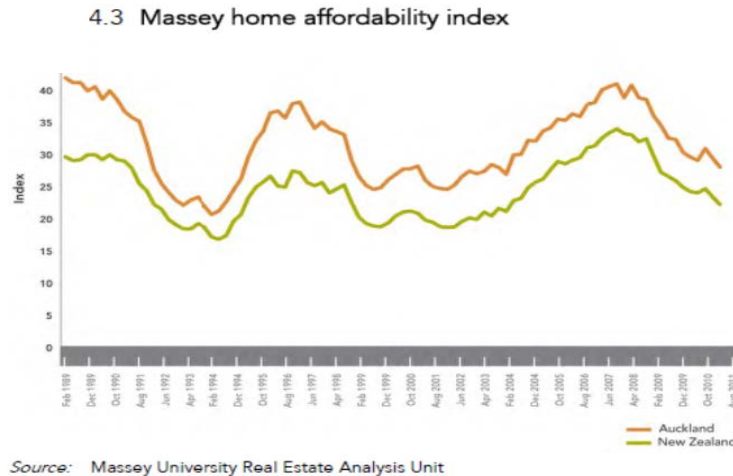
Figure 9 House prices and household disposable income
Indexes, base 1982/83=1000



Sources: Quotable Value, Statistics New Zealand, Reserve Bank of New Zealand

4. When the cost of borrowing is included in the ratio of housing cost to income the pattern of affordability is cyclical mirroring the boom bust cycle, but on average is about the same as 1989 (see Figure 4 below - Note Auckland affordability has deteriorated since 2011 to 36.1 in 2015 while New Zealand overall has remained around 22).

Figure 4 Housing Affordability Including Borrowings



- 2.5 A Reserve Bank study found evidence that disposable income per household and mortgage interest rates have explanatory power as long run influences on house price. and should by themselves account for long term movements in house prices. However, that did not explain all of the increase and they suggested that increases in section prices (increased demand through migration/lack of supply) and the cost of construction (international oil and steel demand, e.g. China and India expansion) were also likely contributors. Increased access to credit following financial deregulation, a higher appetite on the part of households to borrow (falling interest rates and increasing incomes) and the tax treatment of rental properties may also have exerted upward pressure on prices (particularly given comparative share market returns).
 - 2.6 Although only part of the picture of housing affordability, land supply relative to demand can be a factor in the cost side of housing. Where land is in short supply developers compete for bare land driving up the base cost and where developed sections are in short supply competition amongst buyers will allow developers to raise prices and enhance profits above base expectations. This can have an effect on the affordability of building new homes in greenfield locations, which can flow into the broader housing market, particularly in high growth locations such as Auckland.
- ### 3.0 Hawke's Bay Housing Affordability
- 3.1 In terms of regional housing affordability, incomes are a significant determinant of housing affordability. Figure 5 below compared HB/Gisborne with Auckland and a selected number of other provincial regions, and suggests that Housing affordability in HB would be more challenging than

other parts of NZ. Figure 6 shows the average house price for the main cities in those regions.

Figure 5 Comparison of Median Incomes in Selected Regions

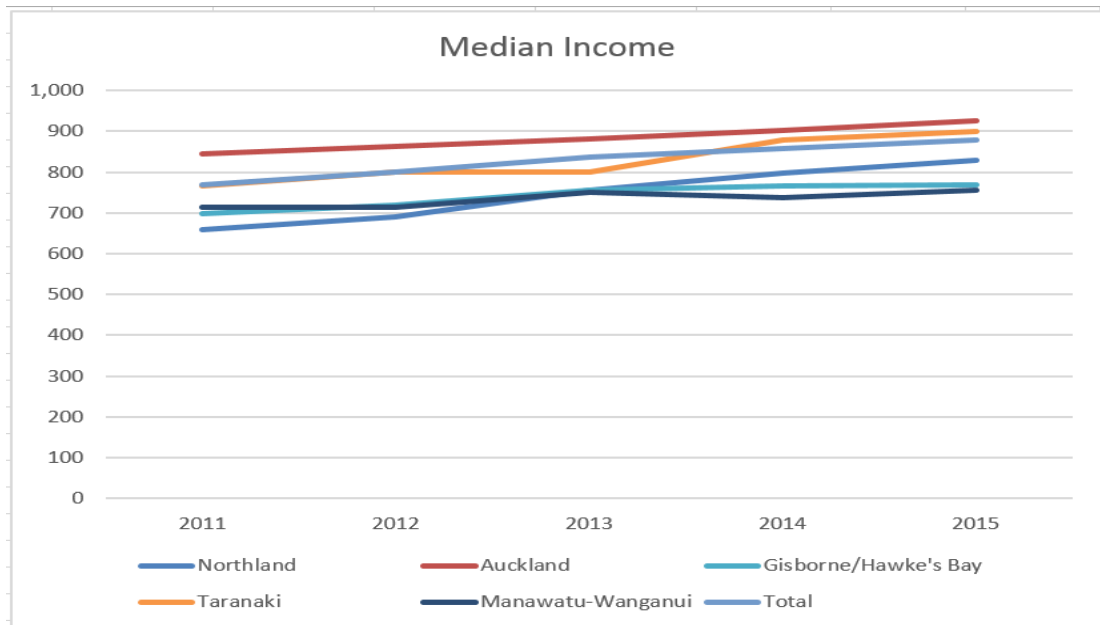
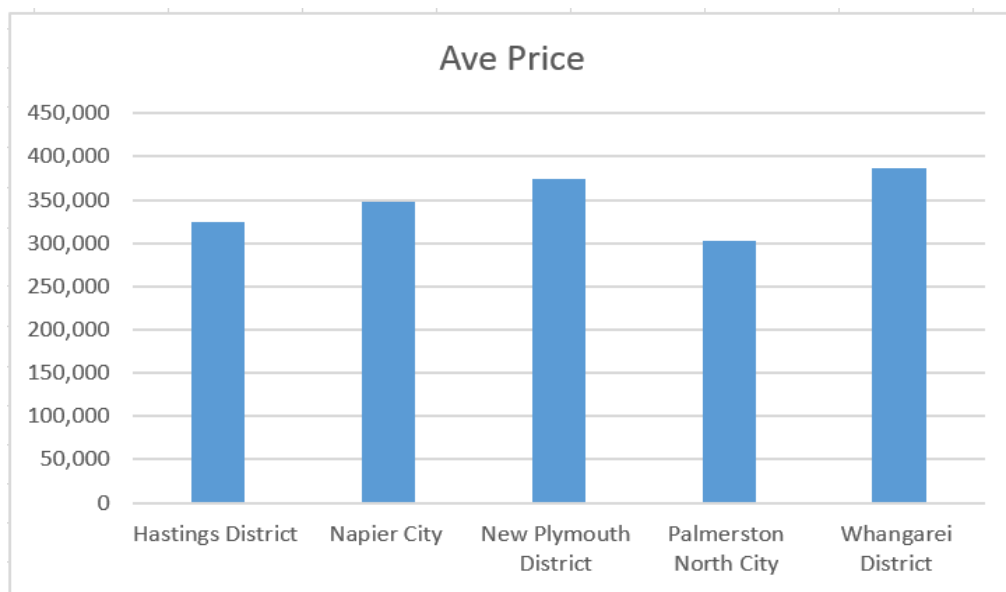


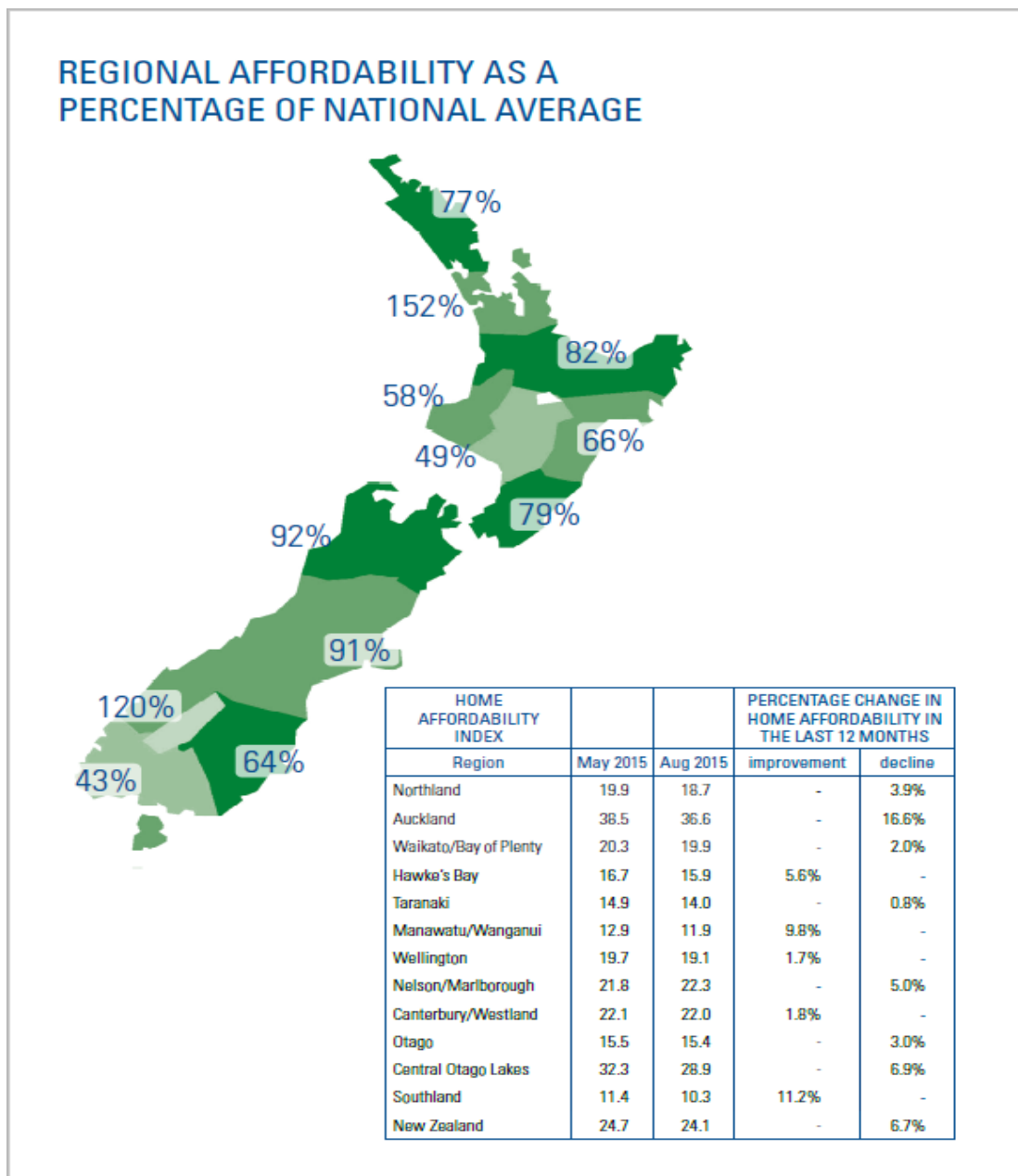
Figure 6 Average House Prices in Selected Regions



3.2 On the cost side there is unlikely to be huge variation in land and building construction contract rates, but land development costs will vary by region and greenfields growth area due to local geographic constraint. In this respect it is notable that in HB stormwater management and agri-chemical remediation costs are likely to be significantly higher than in other regions as will base rural prices.

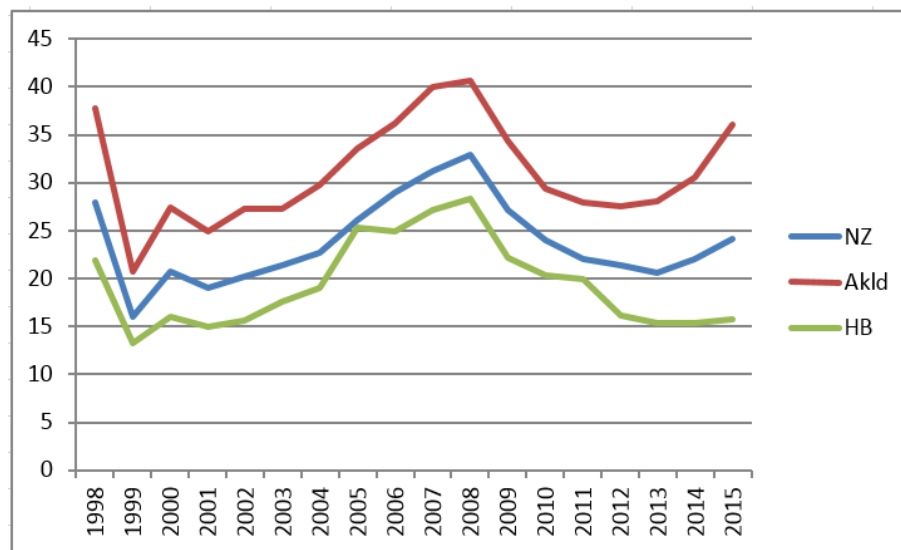
3.3 Figure 7 indicates that Hawke's Bay nevertheless compares reasonably well with the rest of the country.

Figure 7 Massey University Housing Affordability Index November 2015



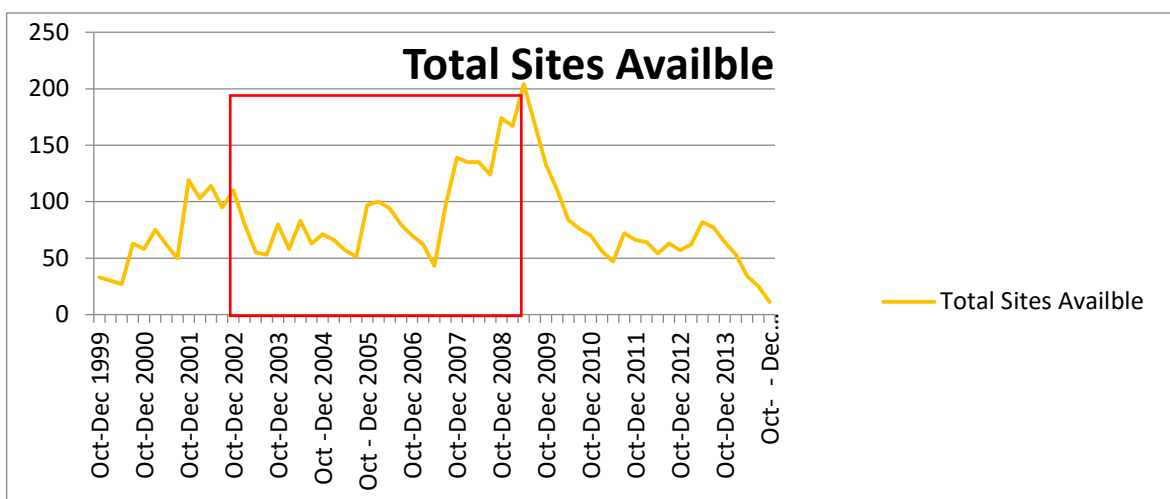
3.4 Affordability is noticeably better than in 2007 (when it had an index of 27) at the property market peak when there was ironically an ample supply of residential sections, probably in line with other regions partly due to the higher interest rates. While there will be regional variations Figure 8 shows that fluctuations in housing affordability are dominated by macro-economic factors not local issues such as land supply.

Figure 8 Housing Affordability Over Time (MUHAI)



3.5 Land scarcity is however, only one of the factors influencing over all housing affordability and in slower growing areas such as Hawke’s Bay. The housing price escalations over the period 2000-2008 coincided with a period of relatively ample greenfields land supply as Figure 9 shows for just Arataki, Lyndhurst and Northwood in the Hastings District, with sites available at any one time averaging around 80 and serviced capacity of around 500 sites (during this period, Clive and a number of other smaller greenfields sites were available as well).

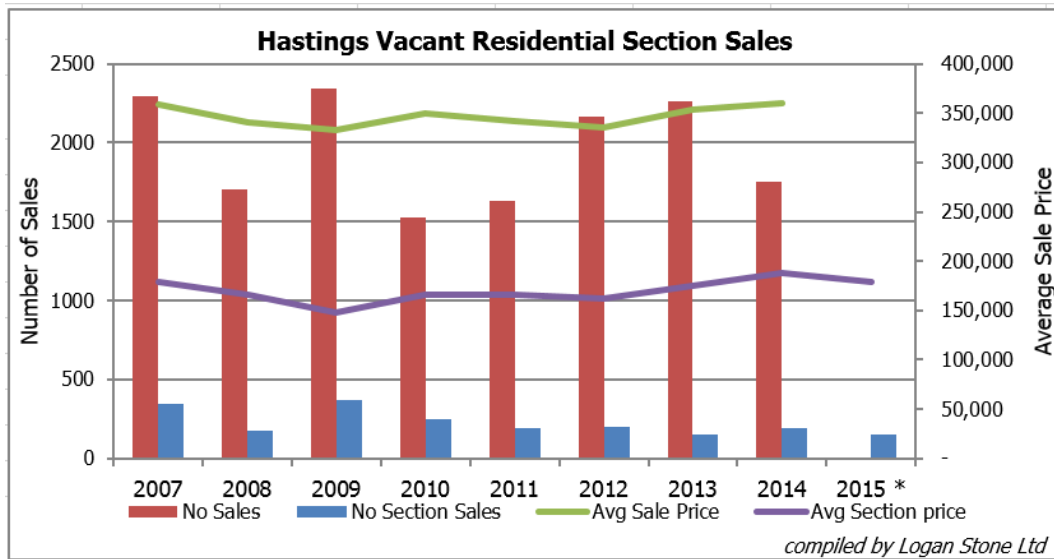
Figure 9 – Section Availability Over Time Arataki, Northwood and Lyndhurst



3.6 Greenfields land prices are likely to have little effect on housing affordability across the board, given that vacant section sales have typically been only a fraction of the overall housing market locally, around 10% over the last five

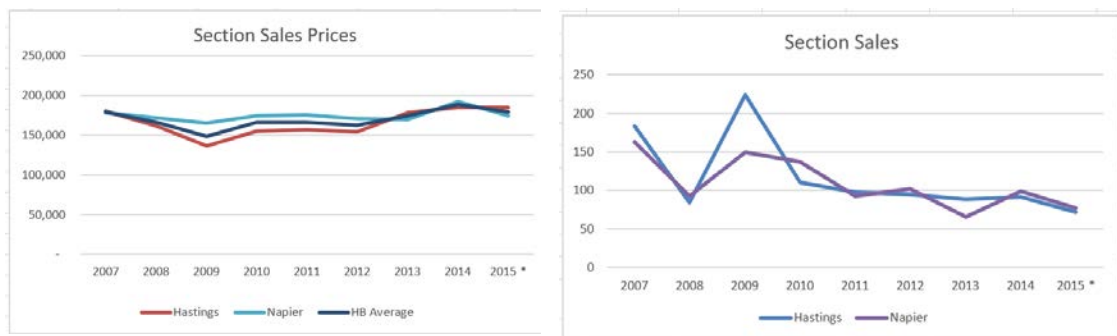
years, although up to 15% in the preceding three years. Figure 10 shows HB's house prices relative to the number of sections sold since 2007.

Figure 10 Napier Hastings Residential Sales 2007-2015



3.7 Figure 11 shows a reasonably consistent pattern between Hastings and Napier in terms of both sales volumes and price.

Figure 11 Napier Hastings Section Sales and Prices



3.8 Logan Stone comment that the number of section sales in Hastings has remained fairly static since 2011. The average section price increased in 2013 and again in 2014. An increase in section prices is evident, but the average has also increased as a result of fewer section sales outside Havelock North since 2010, due to constrained supply at Lyndhurst (developer issues). Section prices in Havelock North are higher than other locations.

3.9 While there appears to be a relationship between section prices and existing house prices generally, the low volume, and the Havelock influence may suggest that rises in the housing market generally may raise developers price expectations, rather than the other way around. The Havelock influence may however, be due to a lack of supply in Lyndhurst so the nature of the relationship is hard to establish conclusively either way,

3.10 In addition demand is highly location specific, so providing large areas of land may not satisfy the market. It is important to note that scarcity value relates

not just to zoned land supply, but physical scarcity in terms of the location and the attributes buyers are seeking and prepared to pay for.

- 3.11 Since bare land costs are only a fraction of total building costs, lower land costs may not significantly enlarge the market for new builds if wages are insufficient to fund the total remaining costs (i.e. there may be an entry threshold that many households simply can't achieve relative to incomes).
- 3.12 Using local figures for sections ranging from \$150,000, \$180,000 and \$210,000, and a modest (in today's terms) house of 180m² at \$1,700/m², the rural land value component of a new build may be around 2-3% of total costs of a new build, with the scarcity value ranging from 3-5% (2-3 times the underlying rural value).
- 3.13 House construction costs and physical land subdivision development costs (including Council services) to prepare the bare land for sale would typically account for 70%-80% of the costs, with the developers profit and financing costs being around 15-25%.
- 3.14 The developed land cost (including finance and sales cost plus developer profit) of a new build however, may be around 35-45% of the total new build costs. The physical development costs (including developer profit) of this would typically comprise around 70-80% of the costs, although in sought after locations in limited supply the land component could be around 30%.
- 3.15 In these circumstances it is difficult to see how a less constrained total land supply would flow through into the existing housing market in the absence of high sustained household growth.
- 3.16 It appears the direct cost input increases (oil, materials especially steel) and demand side financial considerations (disposable income and mortgage interest rates) are the key drivers of trend house prices, rather than household growth and supply imbalances, although this can be key contributor in a higher growth regions such as Auckland. Nevertheless Council's do need to be attuned to land cost and supply responsiveness in order not to exacerbate the boom/bust cycle of the housing construction industry.
- 3.17 They key ways to do this are to have long term urban development strategies and aligned regional and district plan policies, advanced structure planning for greenfields areas, regular monitoring and review (to advance land if growth projections are exceeded), an achievable balance and transition between greenfields/infill and brownfields development, and supportive regulatory and financial arrangements for more compact and efficient housing development. That of course is what HPUDS set out to achieve.

4.0 Greenfields Land Supply

- 4.1 Table 1 below shows the vacant land (un-built on, as opposed to available to the market for sale) in the main HPUDS greenfields growth areas that are zoned and serviced for development.

Table 1 Current Capacity with Greenfields Growth Areas

	Vacant Sites December 2015	Sites Consented but not Complete	Estimated Yield of Remaining Land	Total
Arataki	76	0	28	104
Lyndhurst	15	17	66	98
Northwood	20	81	20	121
Parklands	35	219	90	344
Te Awa	25	141	829	995
Total	171	458	1033	1662

- 4.2 In addition to this, Table 2 shows the historic average building rates for these areas and using the most optimistic of those rates, estimates the years of remaining capacity.

Table 2 Average Historic Uptake in Current Greenfields Growth Areas

Area	Last Two Year Annual BCs	Last 5 Year BCs	Last 10 Year Annual Average BCs	Available Land	Years Remaining on Highest Rate
Arataki	32	26	24	104	3
Lyndhurst	10	12	30	98	3
Northwood	12	14	10	121	9
Parklands	39	37	43	344	8
Te Awa	23	21	20	995	50
Total	116	110	127	1662	13

- 4.3 The combination of all the most optimistic scenarios for each area is 142 new dwellings/pa giving 12 years. If Te Awa stalls due to servicing issues and yields only 200 sites, then the period becomes 6-8 years.
- 4.4 Of the 76 vacant sites in Arataki, we understand that only 16 are available for sale and 5 of those are under negotiation. There were 33 settled sales during 2015 suggesting up to 27 sites may be under contract. Until they settle we do not therefore know who the sales are to (i.e. individuals, builders or investors).
- 4.5 Of the 28 Arataki sites remaining to be subdivided, 14 (Evans) are effectively landlocked by Landsdale. This land is still vacant and technically available for building once Lansdale complete their development. There does not appear to be any advantage for Landsdale in not to allow the Evans land to be

developed, once they have sold all their remaining sections in this market. Conversely if they have other near term options to pursue, they may continue to stall the Evans development.

- 4.6 In terms of Lyndhurst the 15 sites are largely contained in Sixty Mile Close and while site development works finished some time ago, Section 224C certificates have only just been issued. A further 17 are currently under construction by Killarney Investments. Of the 66 sites remaining to be created, 54 are within the Frimley Retirement Village Development. Northwood has ample forward supply for its current uptake rates.
- 4.7 Parklands is owned and controlled by Napier City Council and should give a steady supply. Servicing costs for the subsequent stages of Te Awa are however, likely to be an issue in the medium term and it is possible that the remaining supply will be developed at much lower densities and result in reduced yield. The combination of all the most optimistic scenarios for each area in Table 23 is 142/pa giving 12 years. If Te Awa stalls due to servicing issues and yields only 200 sites, then the period becomes 6-8 years.
- 4.8 While a hiatus in building appears to be a little time off, there is a pinch point in terms of section availability for sale in Havelock North and potentially one at Lyndhurst, which could ultimately affect new building rates if new land is not released in the near term. Table 3 shows the projected forward supply in the remaining HPUDS identified Greenfields growth areas.

Table 3 Remaining Planned Forward Land Supply

Planned Over Next Two Years		Additional Sites Anticipated to be created	Additional Years Remaining on Highest Rate
Lyndhurst 2 Deferred Residential		270	9
Iona Zoned Residential		90	3
Iona Balance and East Frontage		117	4
Total		477	
Remaining HPUDS Areas			
Riverbend	250	Arataki/Brookvale	220
Mission Heights	350	Havelock Hills	140
The Loop	350	Howard Street	80
Bay View	90	Kaiapo Road	350
Park Island	170	Copeland/Murdoch	230
Lyndhurst Extension	230	Irongate	270
		Total	2730

- 4.9 Approximately 470 of these are planned to be available within 2 years, to address supply issues that have developed with the Arataki extension becoming unavailable (due to reverse sensitivity issues with Te Mata Mushrooms) and the freehold retirement village locking up land in Lyndhurst Stage 1. This represents a further 3 years availability.
- 4.10 This represents a further 16 years of supply on the most optimistic historic uptake rates, without factoring in a transition to more intensification. This gives a total of thirty years supply equivalent to the HPUDS timeframe. With reducing projected household growth and a move towards greater intensification, not all the identified greenfields growth areas will potentially be needed, so some of the areas less desirable to the market may not be needed until the longer term.

5.0 Conclusion

- 5.1 Housing affordability is affected by many factors other than land supply and that the land supply scarcity component is a small part of the overall cost of a new build in Hawke's Bay. Land supply issues do not appear to have impacted significantly on section and house prices in the HPUDS area to date and despite lower overall medium incomes Hawke's Bay fairs comparatively well with the rest of New Zealand.
- 5.2 In terms of land supply, there is total of thirty years supply potentially available which is equivalent to the HPUDS timeframe. There are however, short to medium term issues in supply in Havelock North and Frimley (Lyndhurst) and potentially at Te Awa which need to be addressed.
- 5.3 With reducing projected household growth and a move towards greater intensification, not all the identified greenfields growth areas will potentially be needed, so some of the areas less desirable to the market may not be needed in the longer term.