Quarterly Monitoring Report

National Policy Statement on Urban Development Capacity

September 2017

Published: October 2018

Contents

Data Sources and Ongoing Monitoring

This quarterly report draws on data contained on the Ministry for Business, Innovation and Employment's Urban Development Capacity Dashboard. It also includes data collected by QLDC and sourced from CoreLogic. Some indicators are updated quarterly, while others are updated annually or less frequently. Indicators updated annually are included in the more comprehensive June Quarter report only. The September, December and March Quarter reports are more condensed. Over time, QLDC may add, remove or replace indicators included in these regular reports to better align them with local data and local issues.

Any queries on this report should be directed to the Planning Policy Team.

1 Executive Summary

This is the third Quarterly Monitoring Report prepared under the National Policy Statement on Urban Development Capacity (NPS-UDC)[1]. As a high growth area, Queenstown Lakes District Council (QLDC) must develop a robust, comprehensive and frequently updated evidence base to inform planning decisions in urban environments (Objective B1). Specifically, QLDC must monitor on a quarterly basis:

a) Prices and rents for housing, residential land and business land by location and type; and 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 (Policy B6).

In order to understand how well the market is functioning and how planning may affect this, and when additional development capacity might be needed, QLDC must also use information provided by indicators of price efficiency in their land and development market, such as price differential between zones. This relates to Policy B7 of the NPS-UDC and these indicators are available from the Ministry of Business, Innovation and Employment. As they are updated infrequently, QLDC has provided a review of these in its three yearly Housing and Business Development Capacity Assessment reports. Further detail on Council's monitoring and evidence base requirements can be found here.

The June 2017 Quarterly Monitoring Report provides the latest detailed overview of key trends and indicators in QLD. Key changes that have occurred between June 2017 and September 2017 are summarised below:

- Median house prices for the District rose by another 2% ($17,500) to reach $890,969.
- The number of dwellings sold continued to drop – down 8% since YE June 2017.
- The number of dwellings in the District increased by 178 (up 1%) to reach 16,149.
- Dwelling sales as a share of the count of total dwellings continued to decrease.
- Average weekly rents increased by another $15/week (up 3%) to $537. Rents are still highest in Arrowtown Ward.
- The ratio of medium house prices to medium incomes in QLD (a measure of housing affordability) got worse, further increasing the gap relative to other NZ cities.
- First home buyer affordability got worse by 1.89 percentage points. Now it is estimated that 79% of first buyer households would have a below average residential income after paying housing costs.
- There has been a marginal improvement in rental affordability.
- 292 dwelling consents and 52 commercial building consents were issued (September quarter). Consent growth continues to exceed levels achieved in 2016.

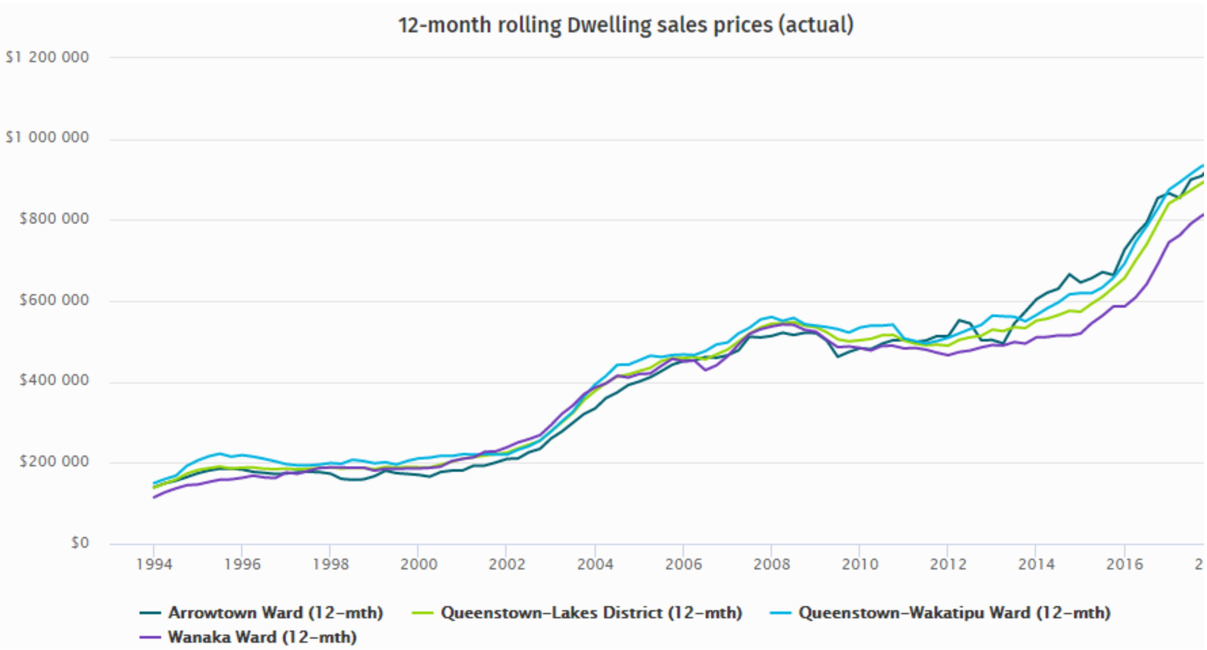
The next quarterly report (December 2017) will provide an update of these local indicators.

[1] The first Quarterly Monitoring Report was June 2017.

2 Sales Prices, Housing Stock, Rents and Affordability

2.1 Sales Prices

About this indicator: This indicator shows the median prices of residential dwellings sold in each quarter. This median price series is not adjusted for size and quality of dwellings. Prices are presented in nominal terms; they have not been adjusted for general price inflation.



Latest Results:

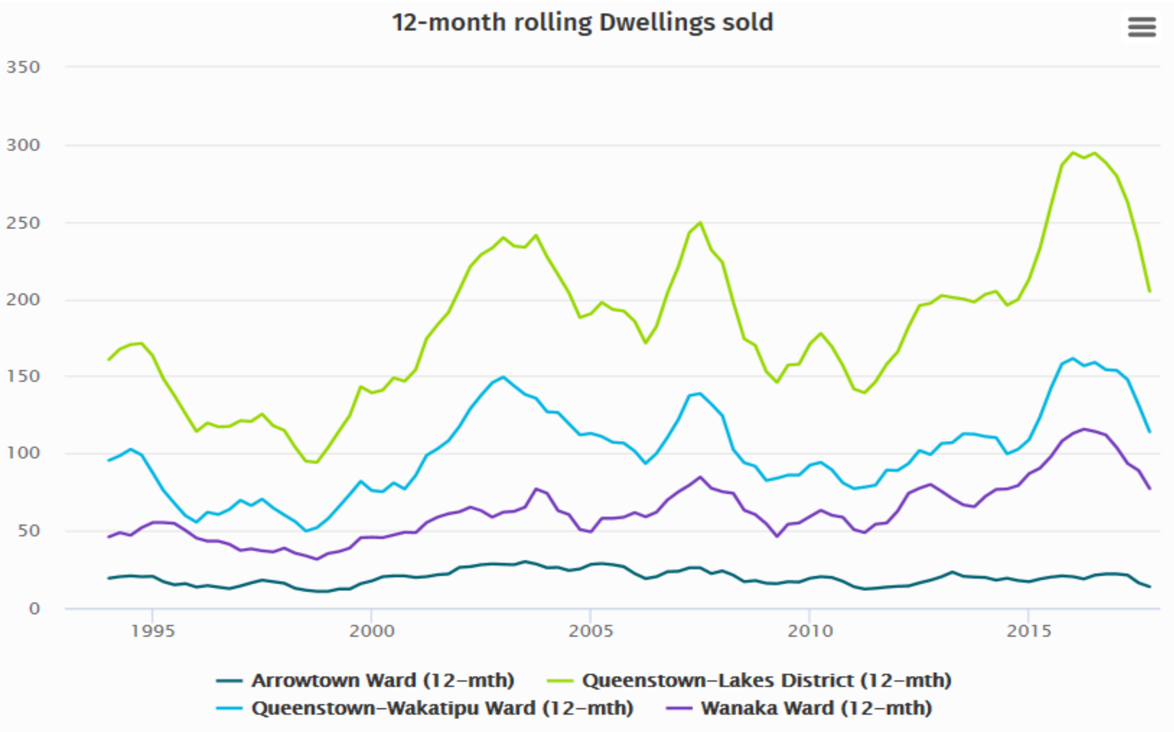
- In the year ending September 2017, the medium house price for QLD was $890,969.
- This is an increase of 2% ($17,500) above the previous quarter (June 2017) and a 13% ($100,031) increase compared to the same time a year ago.
- Medium dwelling prices are highest in the Queenstown Ward ($933,125 September 2017) and lowest in the Wanaka Ward ($810,500).
- Over the last 12 months, prices have increased strongly in Wanaka (17%) and Queenstown (13%). The rate of increase in Arrowtown was has however slower (a 6% increase since September 2016).

Commentary:

House prices in QLD are impacted by strong household growth, demand from international and domestic buyers (i.e. holiday homes) and increasing visitor numbers. Within QLD, median sales prices in the Wakatipu Ward have consistently been higher than the median in the Wanaka Ward, certainly since 2005. Median prices in the small Arrowtown Ward have fluctuated above and below Wakatipu Ward in recent years but presently it sits just below. Over the past four quarters, median prices have increased at a similar rate in Wakatipu and Wanaka, while prices have shown both positive and negative movement in Arrowtown during the same period.

2.2 Dwellings Sold

About this indicator: This is the quantity of all dwellings sold.



Latest Results:

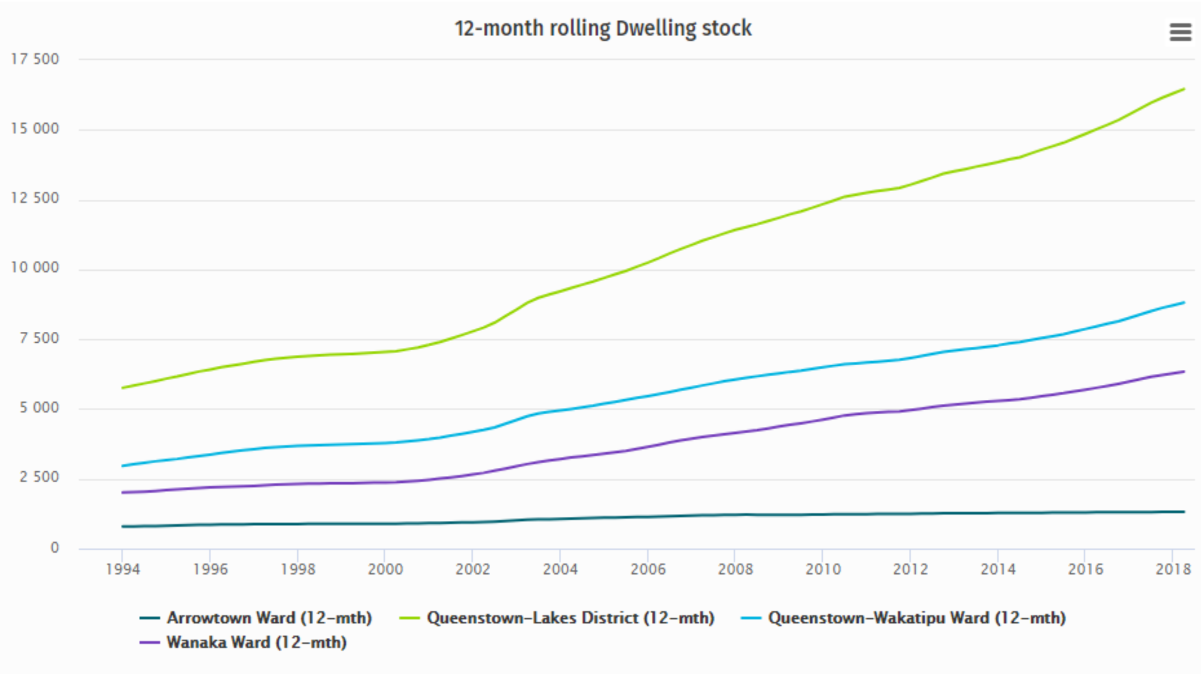
- In the year ending September 2017, the total number of dwellings sold in QLD was 226.
- This is a decrease of 8% (19 less dwellings sold) compared to the previous quarter (June 2017) and a 22% decrease (62 less dwellings sold) compared to the same time a year ago.
- Over the last 12 months, the count of dwellings sold in Queenstown has decreased from 154 (YE September 2016) to 126 (September 2017) (down 18%). In Wanaka, the count has decreased from 112 to 85 (down 24%) and Arrowtown has decreased from 22 to 15 (down 32%).

Commentary:

The number of dwellings sold in the Queenstown and Wanaka Wards has continued to decline from the high point in 2016. An analysis of the building consent records below indicates that it is not a slowing down of the new dwelling construction sector. This indicates that the trend is being driven by fewer existing houses coming onto the market or fewer sections being used for construction company-led 'build and sell' dwellings and more being used for commissioned building contracts where the owners occupy the dwelling upon completion. The Arrowtown market is only small (geographically) but is generally more stable than in the other Wards. In all parts of the District however, the reducing count of houses available continues to support a 'sellers' market' and this has driven prices up in the face of strong demand, particularly in Wanaka and Queenstown.

2.3 Housing Stock

About this indicator: This is the estimate of dwelling stock. It is the total count of dwellings allowing for new builds each quarter and taking into account any demolition of dwellings. Dwellings include standalone houses, attached dwellings and apartments. This indicator informs growth in overall dwelling supply.



Latest Results:

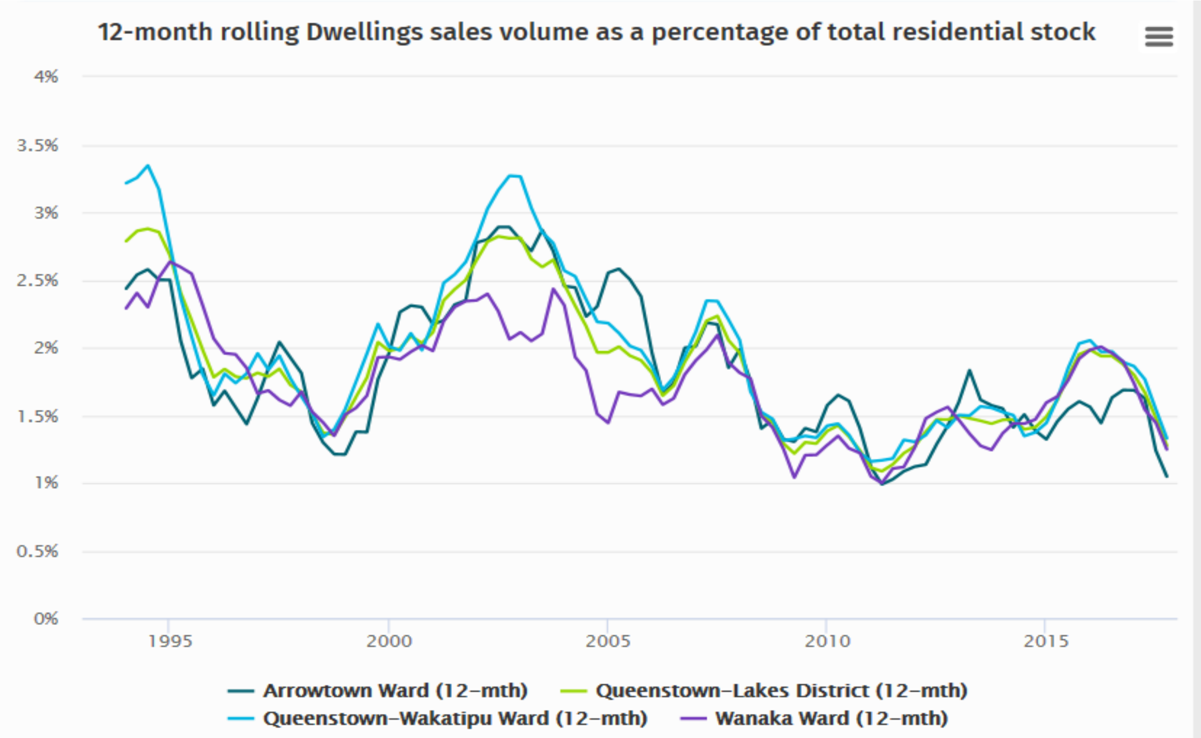
- In the year ending September 2017, the total number dwellings in QLD was 16,149.
- This is an increase of 1% (178 more dwellings) compared to the previous quarter (YE June 2017) and a 5% increase (799 more dwellings) compared to the same time a year ago.
- Over the last 12 months, the count of dwellings in Queenstown has increased from 8,143 (YE June 2017) to 8,621 (YE September 2017) (up 6% or 478 additional dwellings). In Wanaka, the count has increased from 5,903 to 6,215 (up 5% or 312) and Arrowtown has increased by 10 dwellings (1%) to reach 1,313.

Commentary:

The increase in the average sales price, the availability of land and the high demand for property are the key factors that impact on this trend. The growth of the District's overall housing stock continues to increase at a steady rate although the Arrowtown Ward has contributed very little to this growth (relative to the other Wards) due to limited vacant capacity within its urban growth boundary. Queenstown Ward makes up 53.4% of the total dwelling stock, while Wanaka and Arrowtown make up 38.5% and 8.1% respectively. Over time, it is expected that Arrowtown will account for a relatively smaller share of the total given the significant greenfield and infill growth capacity enabled in Wanaka and Queenstown.

2.4 Dwelling Sales as Share of Dwelling Stock

About this indicator: This indicator measures the quantity of all dwellings being bought and sold relative to the total stock. It is a measure of activity in the local housing market.



Latest Results:

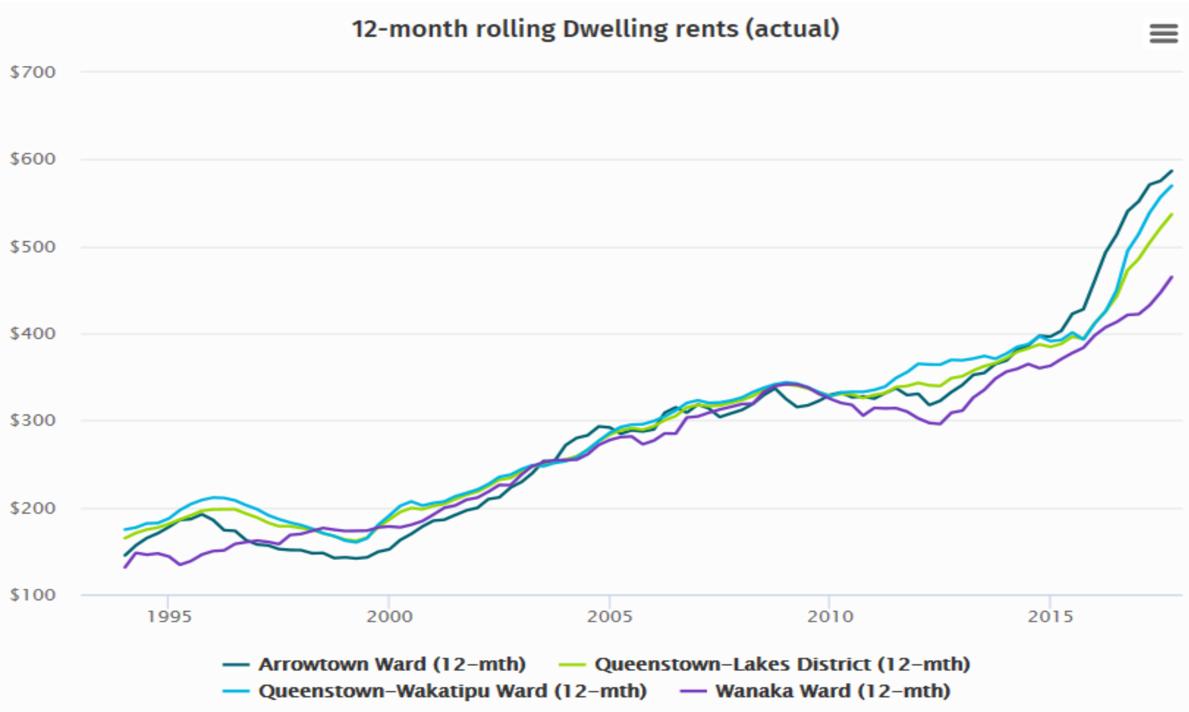
- In the September 2017 quarter, the total number dwellings sold in QLD as a share of the dwelling stock was 1.399%.
- This is down on the previous quarter (June 2017) of 1.531%. The same time a year ago (September 2016), the percentage share was higher again on 1.879%. This has been consistently declining since the last peak December 2015.
- The latest figures for Wanaka and Queenstown are very similar to the district overall (1.370% and 1.458% respectively). Arrowtown continues recent trends of a lower share of dwellings bought and sold (1.444% (September 2017).

Commentary:

This indicator shows a similar trend to the dwellings sold indicator above, with a declining ratio of dwellings sold relative to total dwelling stock. That is, a declining share from the recent peak in early 2016. Relative to other large cities in New Zealand, QLD shows a similar level of activity in its housing market – with Auckland, Greater Wellington and Greater Christchurch having a slightly lower share of dwellings being sold and Greater Tauranga having a slightly higher share (September 2017). All of these cities have shown a similar downward trend in recent quarters and this is to be expected as steady growth represents a smaller and smaller share of the total. Unless growth is accelerating, this will be the case. The much lower 'churn' of the market in Arrowtown again reflects a very stable market with strong demand and limited opportunities for growth.

2.5 Dwelling Rents

About this indicator: This indicator reflects nominal mean rents as reported in new rental bonds lodged with MBIE. The mean used is a geometric mean. The reason for using this mean is that rents cluster around round numbers and tend to plateau for months at a time. This makes analysis of time series difficult and using the geometric mean is a way of removing this clustering effect. The data is for private bonds only and so excludes social housing.



Latest Results:

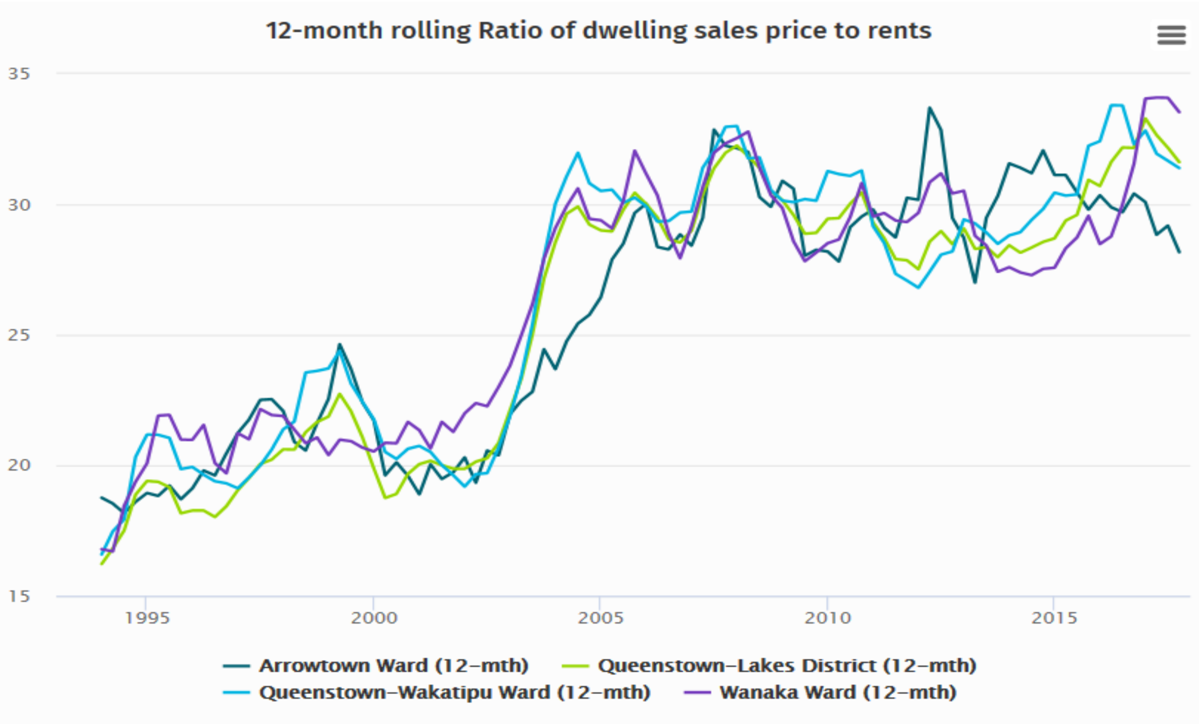
- The average weekly rent in QLD currently stands at $537. This is up $15 per week (3%) compared to the previous quarter (YE June 2017). Compared to the same time 12 months ago (September 2016), average weekly rent has increased by $64 or 14%.
- Rent in Wanaka is below the district average at $465 per week. This has increased by $44 compared to the same time a year ago (September 2016). Queenstown is up 15% or $74, and Arrowtown up 9% or $46.
- Average rent in Arrowtown currently sits at $587 and is only slightly higher in Queenstown ($570 per week).

Commentary:

Rising rents in QLD continues to be a very big concern given the large number of residents who are transient (i.e. seasonal workers) and/or are low-income earners. Rents are rising due to an undersupply of long-term rental properties and strong demand. This is despite the large number of unoccupied dwellings in the District which are retained as holiday homes or used for short stay visitor accommodation. Key implications of rising rents are overcrowding and severe difficulties with recruiting and retaining workers from outside the District. The trend shows no sign of slowing.

2.6 Sales Prices to Rent Ratio

About this indicator: This indicator measures the ease of moving from renting to home ownership, and also shows trends in possible investor yields. A higher house price/rent ratio reflects a larger gap between renting and buying. Higher ratios also indicate that rental yields for investors are lower.



Latest Results:

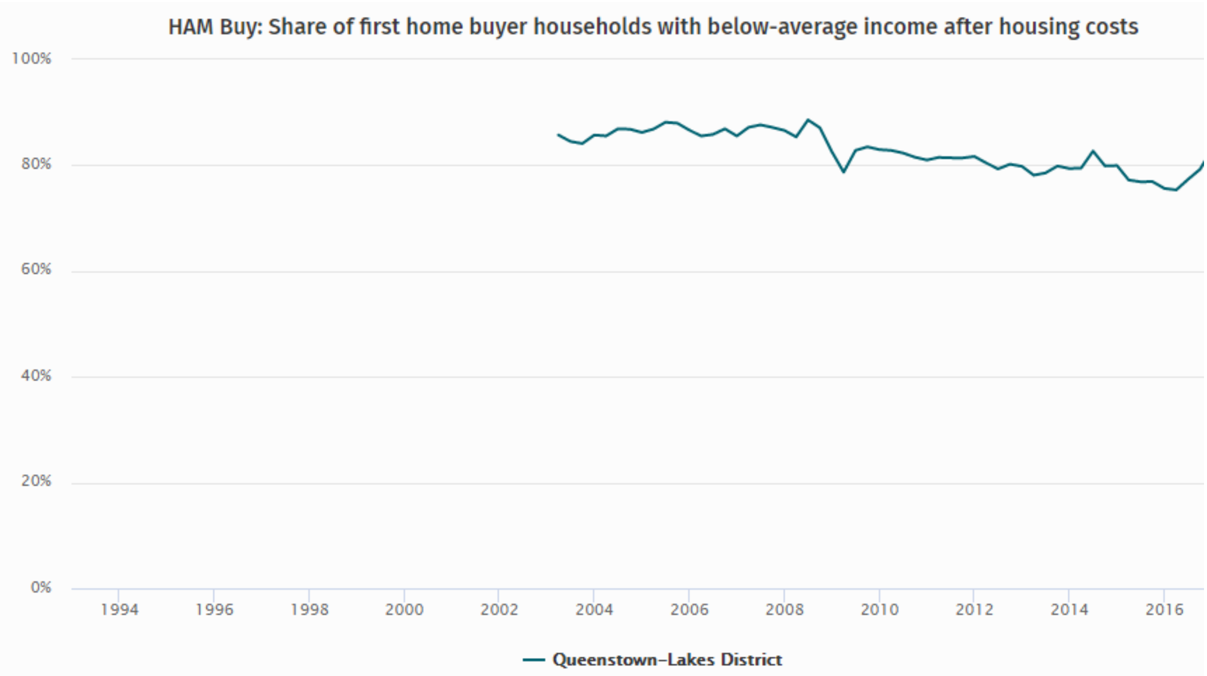
- The QLD current price to rent ratio is approximately 31.977 (decreasing slightly from the previous quarter (June 2017) where it was 32.254. Compared to the same time a year ago (September 2016), the average ratio is down (from 32.125) (that is, the gap between renting and buying lessened slightly).
- Wanaka remains the hardest place to transition from renting to home ownership. The current ratio is 33.635 (September 2017). The gap between renting and buying is lowest in Arrowtown.

Commentary:

This indicator is supposed to measure the ease of moving from renting to home ownership, but it compares the average rental with the median sales price and does not capture the actual movements that would occur. I.e., someone paying the average rental would not be in the market for the medium house. Notwithstanding this limitation, the recent decline for the district overall followed two years of strong rises – yet overall the ratio has not changed significantly in net terms since 2007. In more recent years (since 2012), the price to rent ratio has increased for all high growth areas, however QLD and Auckland remain high compared to the others. Transitioning from renting to home ownership continues to remain a struggle for QLD residents.

2.7 Housing Affordability Measure – Buy

About this indicator: The HAM - Buy measures trends in housing affordability for the first home buyer household. For potential home-owning households, HAM - Buy calculates the residual income after housing costs if they were to buy a modest first home in their area. Affordability is affected by dwelling prices, mortgage interest rates and the incomes of rental households. Average income is determined using the average New Zealand household, both homeowners and renters, nation-wide, in June 2013. A higher number indicates a lower level of affordability.



Latest Results: (There is a 12-month lag in this indicator - current data is for September 2016).

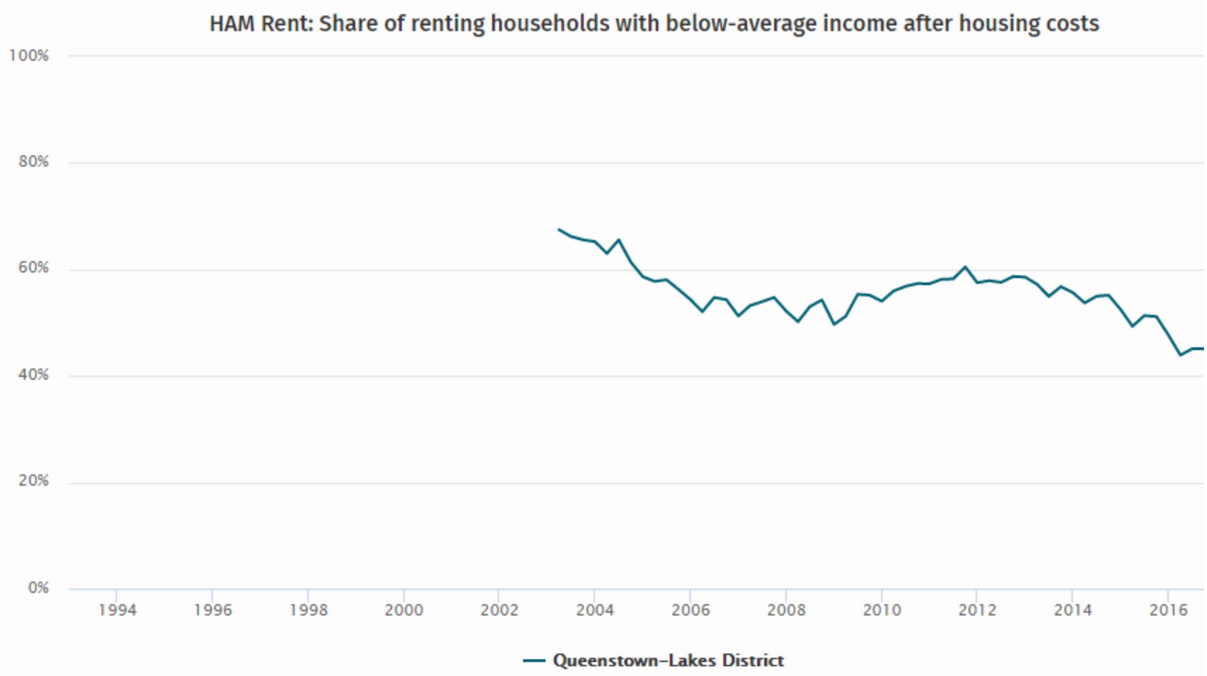
- The latest data shows that on average across QLD, 79.24% of first home buyer households would have a below average income after paying for housing costs.
- This percentage share has risen since June 2016 by 1.89 percentage points.
- Compared to the same time a year prior (September 2015), the percentage has risen by 2.33 percentage points (from 76.91%).

Commentary:

This indicator needs to be interpreted with care as the average NZ income does not reflect local earning conditions in QLD – where the average income is generally lower due to the significant hospitality sector. There has been variability in this indicator over the time series with frequent ups and downs, although a generally improving trend is evident for first home buyer affordability since 2005. Overall, this indicator shows that affordability for first home buyers is low across QLD despite recent improvements. It is too soon to tell if the increase in percentage share over the last two quarters will continue or if it is another minor and short-term fluctuation. A continuation of this rise could quickly return QLD to 2005 levels.

2.8 Housing Affordability Measure – Rent

About this indicator: The HAM - Rent indicator measures trends in housing affordability for the renting household. For renting households, HAM - Rent calculates what their residual income would be after housing costs. Average income is determined using the average New Zealand household, both homeowners and renters, nation-wide, in June 2013. A higher number on the chart indicates more households are below the average and a lower level of affordability.



Latest Results: (There is a 12-month lag in this indicator - current data is for September 2016).

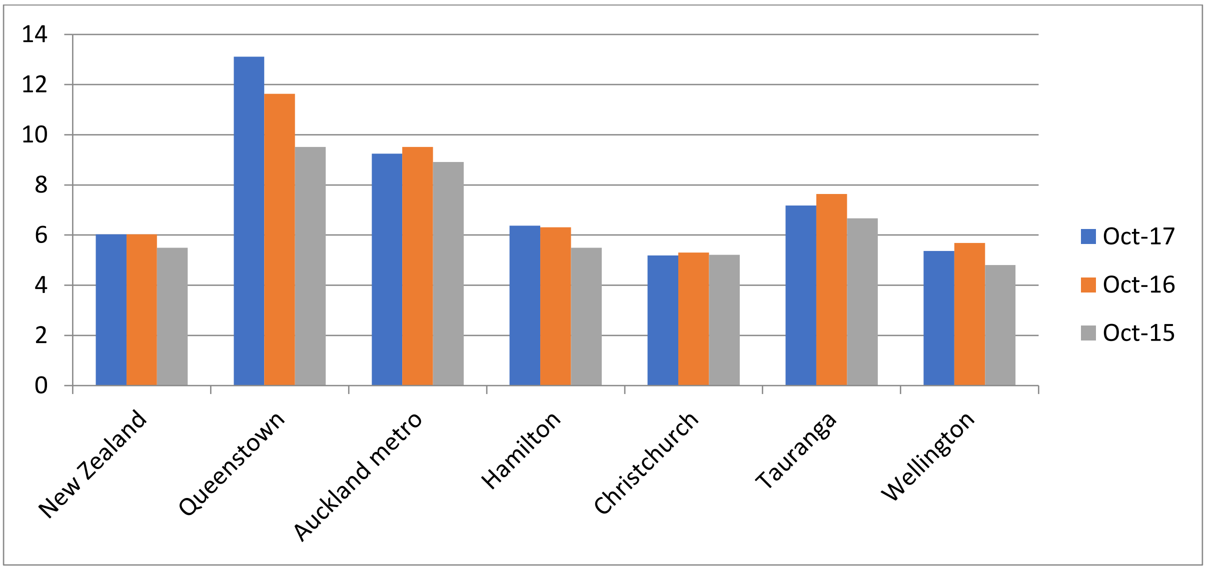
- The latest data shows that on average across QLD, 45.073% of renting households would have a below average income after paying for housing costs.
- This percentage share has risen marginally in the last quarter by 0.028 percentage points (from 45.045%).
- Compared to the same time a year prior (September 2015), the percentage has decreased by 6.061 percentage points (from 51.134%).

Commentary:

As above, this indicator needs to be interpreted with care as the average NZ income does not reflect local earning conditions in QLD – where the average income is generally lower. This measure indicates that rental affordability has generally improved across the QLD between 2011 and 2017. Given that rental prices have been rising rapidly in the District during that time, this implies that average incomes (NZ) have been rising at a faster rate. This raises some concern about how accurate this indicator is in the context of QLD. Particularly as there is evidence of overcrowding and sub-letting of bedrooms in Queenstown rental properties in particular to help manage/share high and rising costs.

2.9 House Price to Income – Wider Context

About this indicator: This indicator shows the ratio between median house prices and median annual household incomes, otherwise known as the median multiple. Unlike the HAM – Buy indicator, it is not limited to first home buyers. This analysis is an important summary measure of the affordability of the housing market for "average" households, noting that the composition and incomes of different households vary significantly.



(Source: https://www.interest.co.nz/property/house-price-income-multiples, October 2017)

Latest Results:

- This indicator shows that QLD is the least affordable place of those areas compared, being 13.11, with Auckland metro and Tauranga being 9.25 and 7.18 respectively;
- The New Zealand average is 6.03.
- The house price to income ratio in Queenstown has increased by 1.48 over the previous 12 months (since YE October 2016). Of the locations shown, Hamilton was the only other city to show an increase in the ratio (reducing affordability), but this was only a marginal change. Other areas showed either no change or slightly improving housing affordability over the last year.

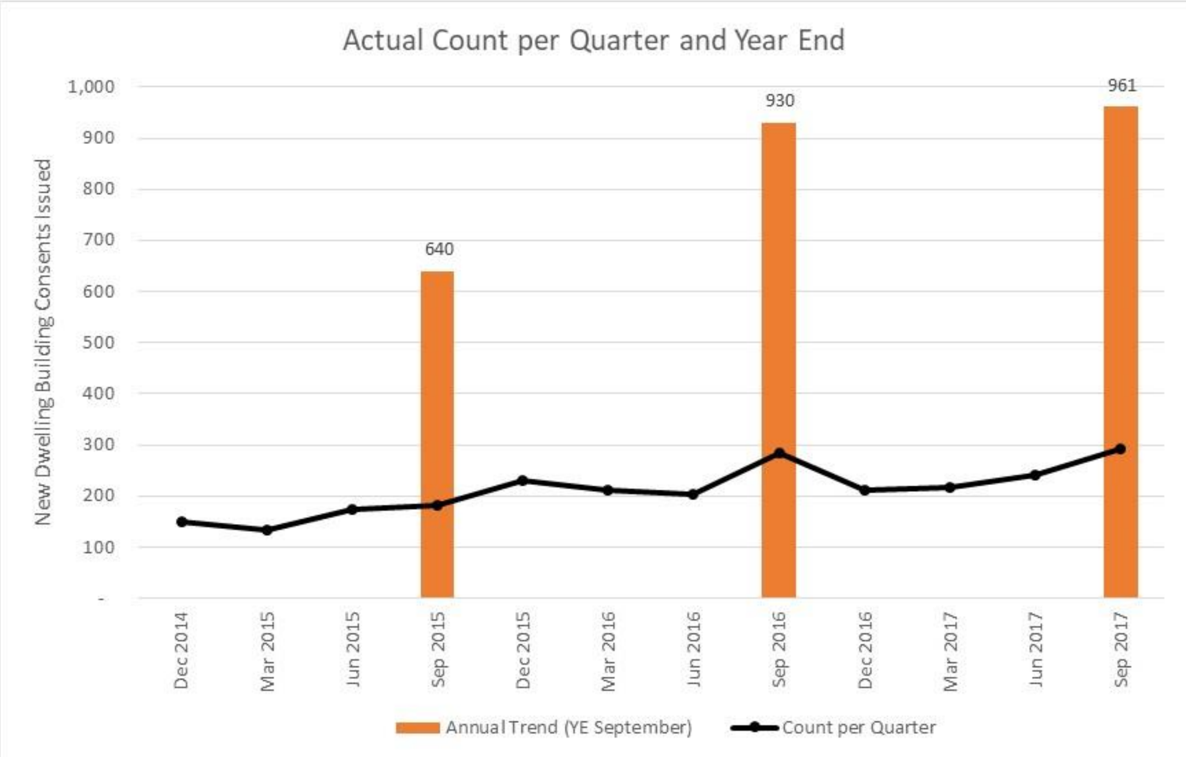
Commentary:

This provides an alternative to the HAM – Buy indicator and is based on actual average incomes in each location rather than the NZ average. Caution is advised in interpreting these results as people earning the median income will be in the market for dwellings in the lower quartile rather than in the median. This is especially the case in QLD, where the median is heavily distorted by a large share of very high value homes. All areas are sitting above the accepted median multiple of 3.0 or less, which is generally considered to be a good marker for housing affordability. Queenstown, Auckland and Tauranga are the least affordable of the areas shown. This indicator highlights the sharp decrease in housing affordability for Queenstown over the past 2 years (note, the HAM indicator is not as up to date as this indicator and is for first home buyers) and is consistent with the significant increases in house prices over that time.

3 Building Consents

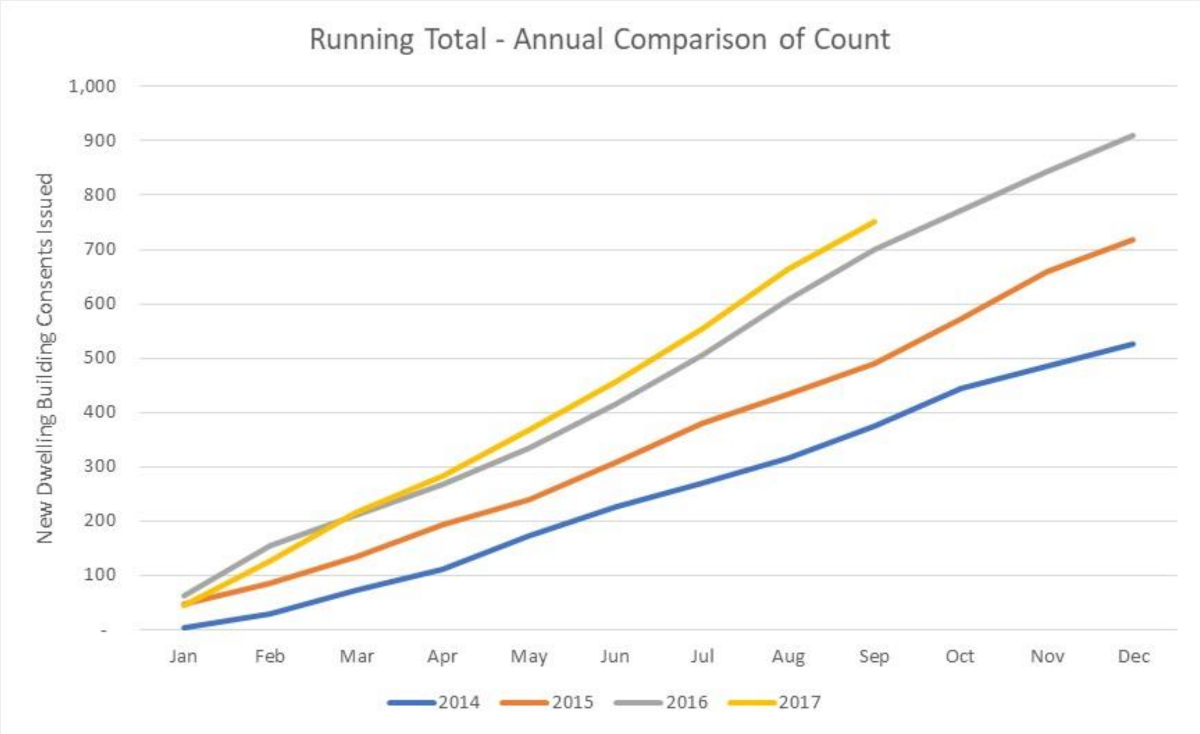
3.1 New Dwelling Consents Issued

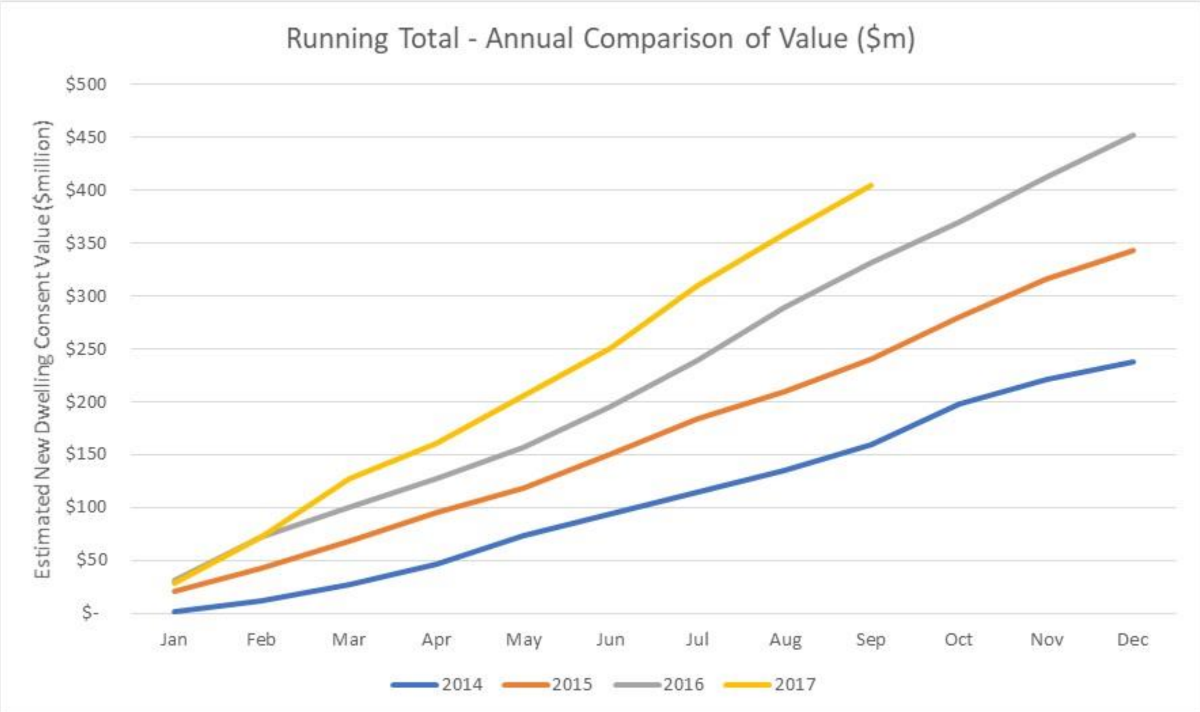
About this indicator: This indicator tracks the actual count of new dwelling building consents issued by QLDC each quarter and year (compiled from total district monthly data). Estimated value of consents is also monitored.



Latest Results:

- There were 750 new dwelling consents issued from January to September 2017. This is 50 more consents issued compared to the same period in 2016 (7%).
- There were 292 dwelling consents issued in the September 2017 quarter. This is slightly up on the same quarter a year ago (September 2016) where there were 284 dwelling consents issued.
- In the 12 months ending September 2017, there were 961 dwelling consents issued, up 31 consents (3%) for the year ending September 2016.
- In terms of the estimated value of new dwelling consents, the total value in the September 2017 quarter was approximately $155m, which is significantly above the equivalent quarter in 2016 ($136m) and well above the previous quarter June 2017 ($123m).
- The average value of new dwelling consents issued in September 2017 was $530,000. This was approximately $20,000 higher than the average value in June 2017 (up 4%).



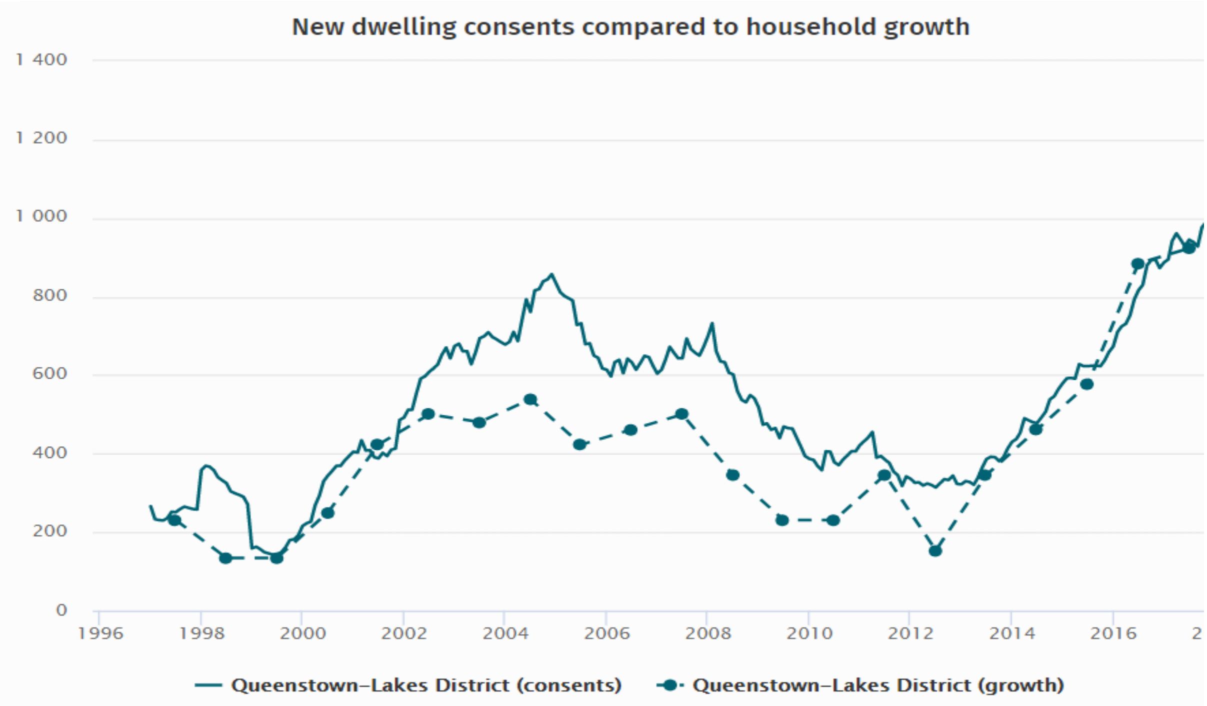


Commentary:

The count of dwelling consents got off to a slow start in 2017, with counts close to those in 2015 and contrary to the consistent increase year on year between 2014 and 2016. As at September 2017, the running total suggests there is going to be a slightly greater overall count for the full year compared to 2016 if current trends continue. In value terms however, so far in 2017, the annual trend of increasing dwelling consent values continues.

3.2 New Dwelling Consents vs Household Growth

About this indicator: This indicator approximates the demand for, and supply of, new dwellings. It measures changes in demand and how responsive supply is. The number of new dwelling building consents is lagged by six months (presented as a 12-month rolling average), to account for the time taken from consenting to completion. It is used as a proxy for supply. The most recent resident population (updated each June), divided by the local average housing size, is used as a proxy for demand.



Latest Results:

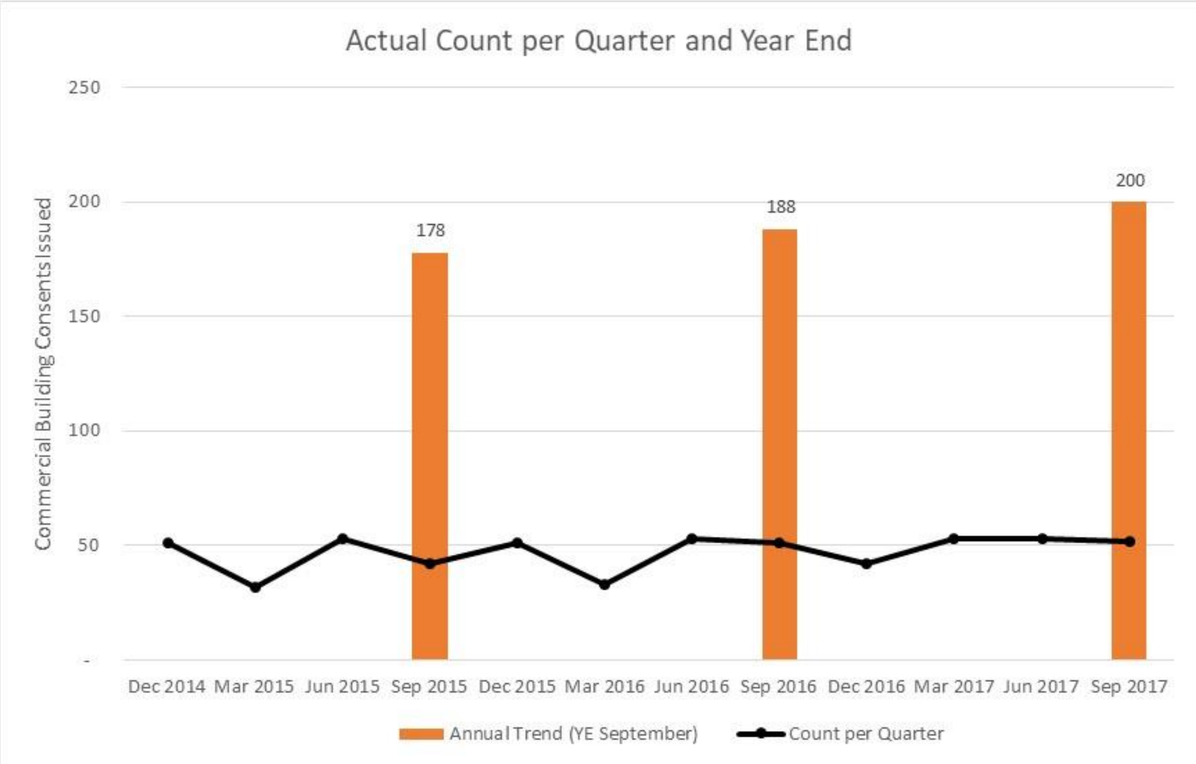
- This indicator contains new dwellings as at September 2017 and estimated household growth up to June 2017. Due to built-in lags, care is needed when comparing new dwelling consent data with the previous indicator.
- The results show a steep increase in dwelling supply relative to the previous month (August 2017), but equally, there have been ups and downs in supply in the previous few months, so this may be a short-lived climb.
- Taking a longer-term perspective, there has been a steady and strong increase in housing supply overall since 2013.

Commentary:

Since June 2013, household and new dwelling growth in QLD have been relatively close. That is, supply kept pace with resident demand (or vice versa) and consent and household growth have increased at generally the same rate. However, not all dwellings being built are available for resident households (i.e. they may be used for holiday homes, for non-local residents – including seasonal workers - or used for residential visitor accommodation). Care is therefore needed, as the two indicators are not directly comparable. Rising sales and rent prices indicate strong dwelling demand that may not be being met by the market.

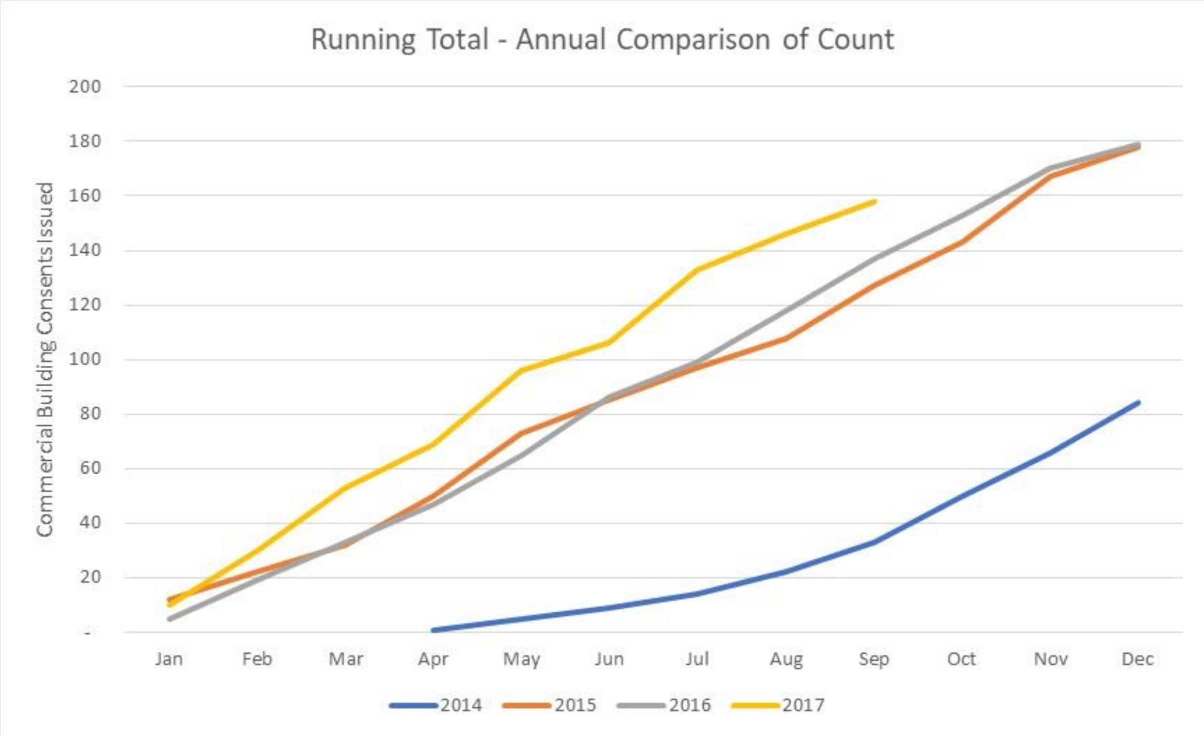
3.3 Commercial Building Consents Issued

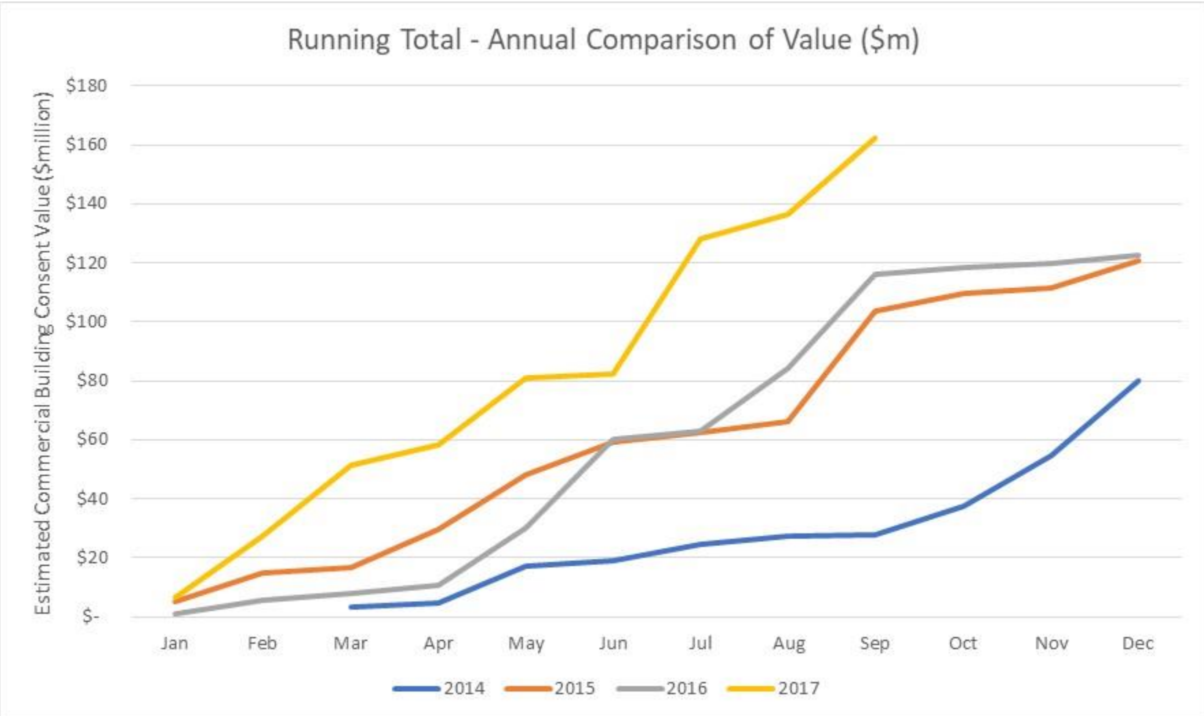
About this indicator: This indicator tracks the actual count of commercial building consents issued by QLDC each quarter and year (compiled from total district monthly data). Estimated value of consents is also monitored.



Latest Results:

- There were 52 commercial building consents issued in the September 2017 quarter. This is 1 fewer consent compared to the June 2017 quarter.
- This is consistent with the same quarter a year ago (September 2016) where there were 51 commercial building consents issued.
- Over the last 12 months (YE September 2017), there have been a total of 200 commercial building consents issued. This is an increase of 12 consents (6%) compared to the previous year (188 in YE September 2016).
- In terms of the estimated value of commercial building consents, the total value in the September 2017 quarter was approximately $80m, which is significantly higher than the equivalent quarter in 2016 ($56m).
- The average value of commercial building consents issued in this quarter was $1.5. This was approximately $948,000 higher than in June 2017 (up 162%).





Commentary:

Commercial buildings have a less steady supply increase and are heavily influenced by a smaller number of large developments in new greenfield or brownfield commercial zones. Consent value is strongly influenced by the type of consent with greater variability in commercial consents than residential consents. So far (i.e. as at September), 2017 outstrips the count and value of commercial consents issued in the previous three years.