QUEENSTOWN LAKES DISTRICT COUNCIL

Quarterly Monitoring Report

National Policy Statement on Urban Development Capacity

March 2018

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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 fourth 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 December 2017 and March 2018 are summarised below:

- Median house prices for the District rose by another 1% ($13,125) to reach $914,188.
- The number of dwellings sold increased for the first time since 2016 – up 1% since YE December 2017.
- The number of dwellings in the District increased by 155 (up 1%) to reach 16,461.
- Dwelling sales as a share of the count of total dwellings continued to decrease.
- Average weekly rents increased by another $6/week (up 1%) to $557. Rents are still highest in Arrowtown Ward but the average in the Queenstown Ward is close.
- First home buyer affordability got worse by 0.895 percentage points. Now it is estimated that 84% of first buyer households would have a below average residential income after paying housing costs.
- There has been a marginal decrease in rental affordability.
- 204 dwelling consents and 31 commercial building consents were issued (March quarter). Consent growth so far this year is below levels achieved in 2017.

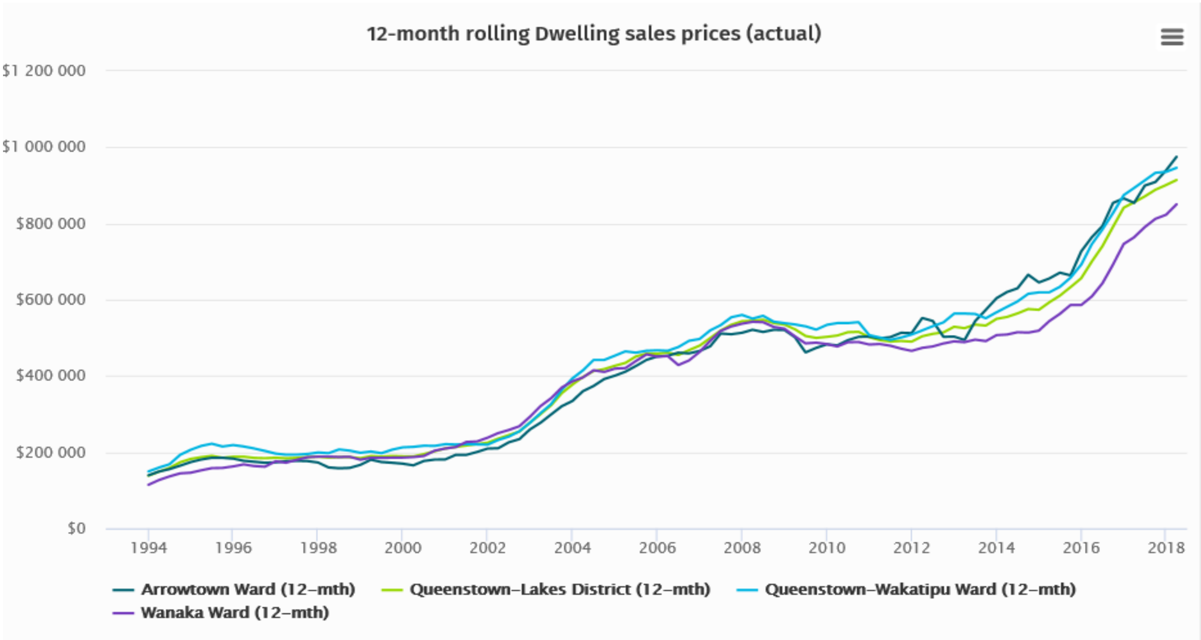
The next quarterly report (June 2018) will provide a more detailed update of these local indicators.

[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:

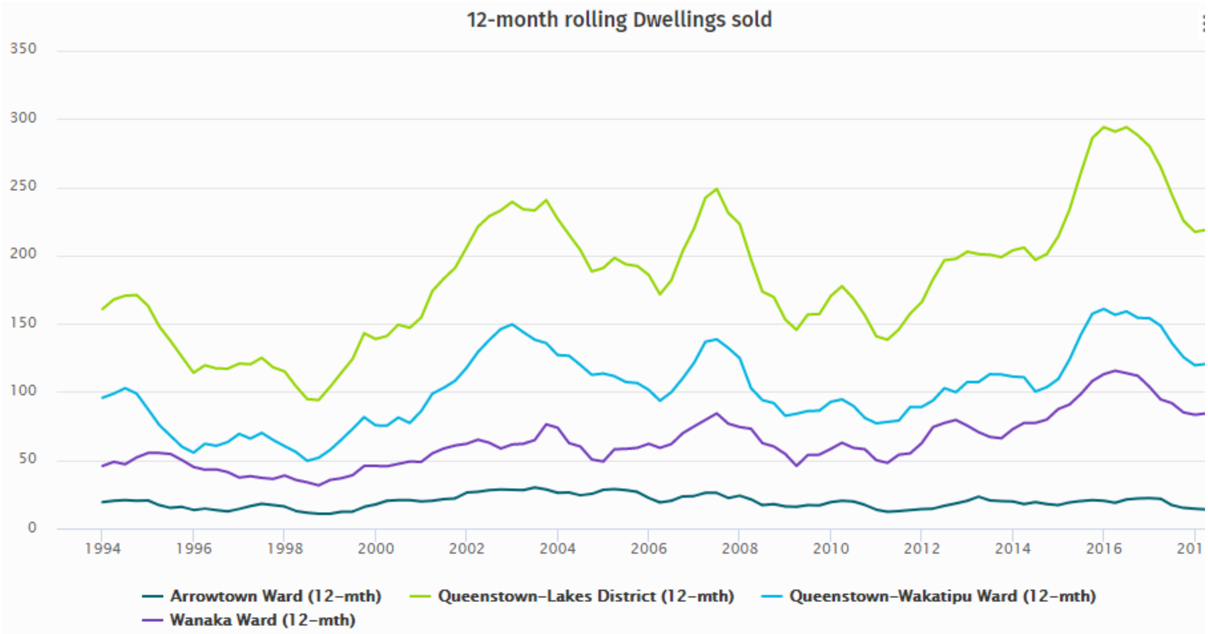
- In the year ending March 2018, the medium house price for QLD was $914,188.
- This is an increase of 1% ($13,125) above the previous quarter (YE December 2017) and a 7% ($58,219) increase compared to the same time a year ago.
- Medium dwelling prices are highest in the Arrowtown Ward ($975,125 YE March 2018) and lowest in the Wanaka Ward ($850,500).
- Over the last 12 months, prices have increased strongly in Arrowtown (14%) and Wanaka (11%). The rate of increase in Queenstown has however slowed (a 6% increase since March 2017).

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 have climbed above in the last two quarters. Recent data on average house prices (which differs from the median price reported in this indicator) shows the average current house value in QLD was up 8.5% in March 2018 compared with a year earlier. This means that the average price is growing at a faster rate than the median. Growth underperformed relative to the rest of NZ, where prices increased by 9.5%. The average house value was $1,104,778 for QLD, which compares with $659,904 across NZ (Corelogic 2018).

2.2 Dwellings Sold

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



Latest Results:

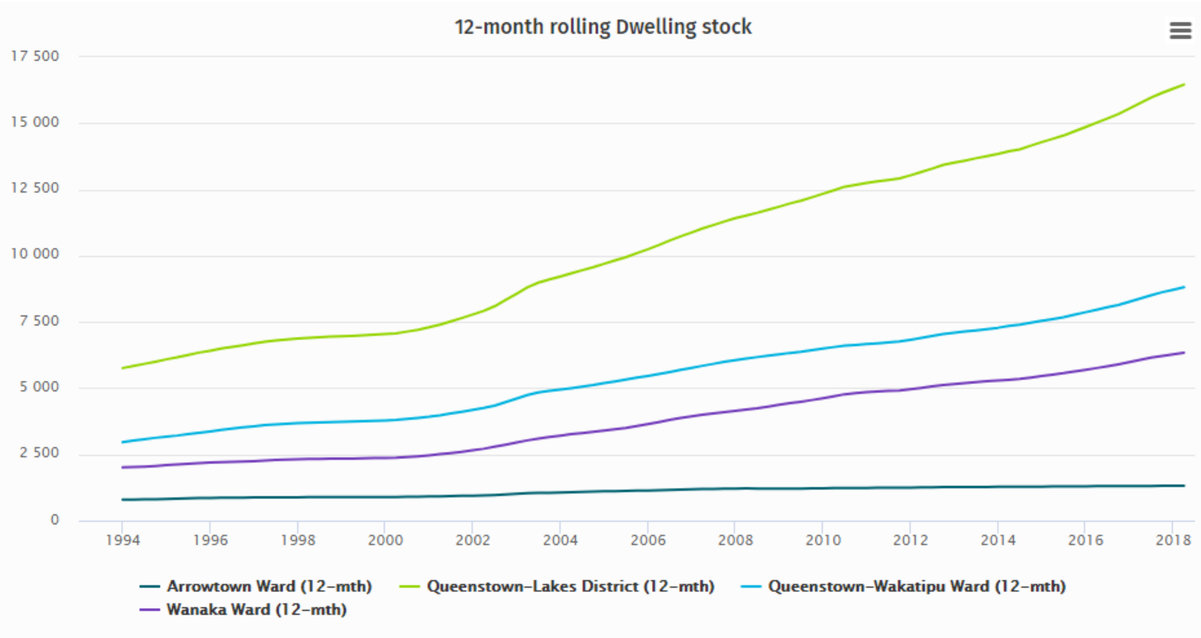
- In the year ending March 2018, the total number of dwellings sold in QLD was 219.
- This is an increase of 1% (2 more dwellings sold) compared to the previous quarter (YE December 2017) and a 17% decrease (46 less dwellings sold) compared to the same time a year ago.
- Over the last 12 months, the count of dwellings sold in Queenstown has decreased from 149 (YE March 2017) to 121 (YE March 2018) (down 19%). In Wanaka, the count has decreased from 95 to 84 (down 12%) and Arrowtown has decreased from 22 to 14 (down 36%).

Commentary:

The number of dwellings sold in the Queenstown and Wanaka Wards appears to have ceased what has been a continuous decline from the high point in 2016 – showing a slight quarterly increase. An analysis of the building consent records below indicates that the period of decline was not evident in the count of new dwelling consents. This indicates that the trend was 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. It is too soon to tell if this slight upturn in dwellings sold will continue or if it is a minor reprieve in an otherwise established reducing trend. Overall, it is still a 'sellers' market' and this is supported by the dwelling price indicator where prices continue to escalate in the face of strong demand.

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:

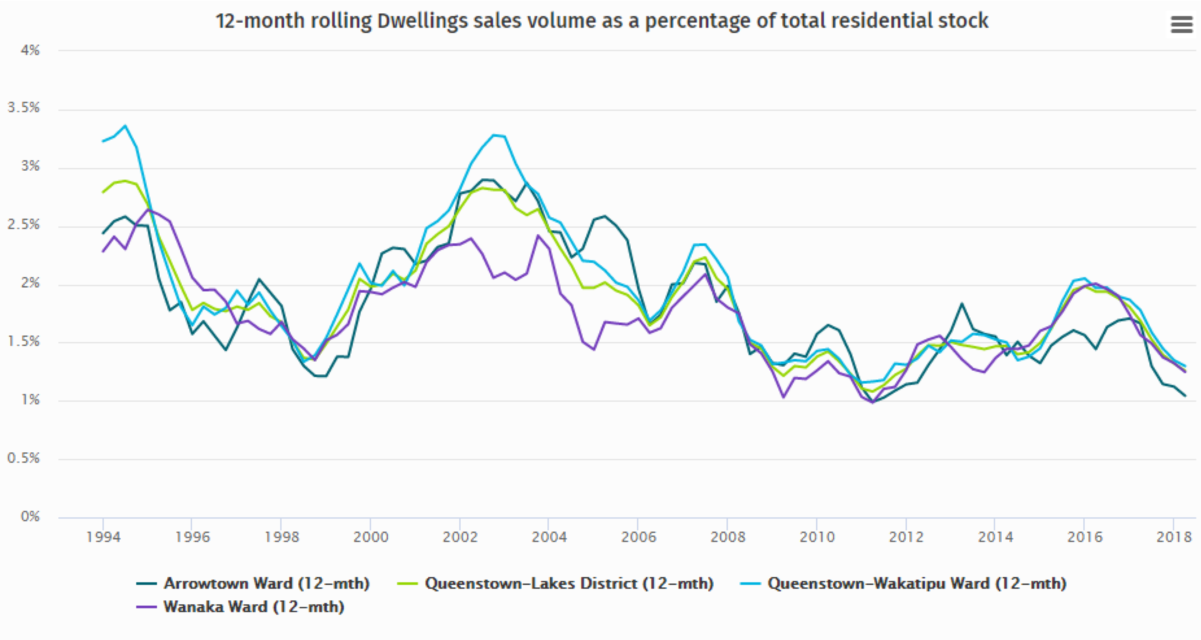
- In the year ending March 2018, the total number dwellings in QLD was 16,461.
- This is an increase of 1% (155 more dwellings) compared to the previous quarter (YE December 2017) and a 4% increase (703 more dwellings) compared to the same time a year ago.
- Over the last 12 months, the count of dwellings in Queenstown has increased from 8,383 (YE March 2017) to 8,808 (YE March 2018) (up 5% or 425 additional dwellings). In Wanaka, the count has increased from 6,068 to 6,336 (up 4% or 268) and Arrowtown has increased by 11 dwellings (1%) to reach 1,318.

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 currently makes up 53.5% of the total dwelling stock, while Wanaka and Arrowtown make up 38.5% and 8.0% 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:

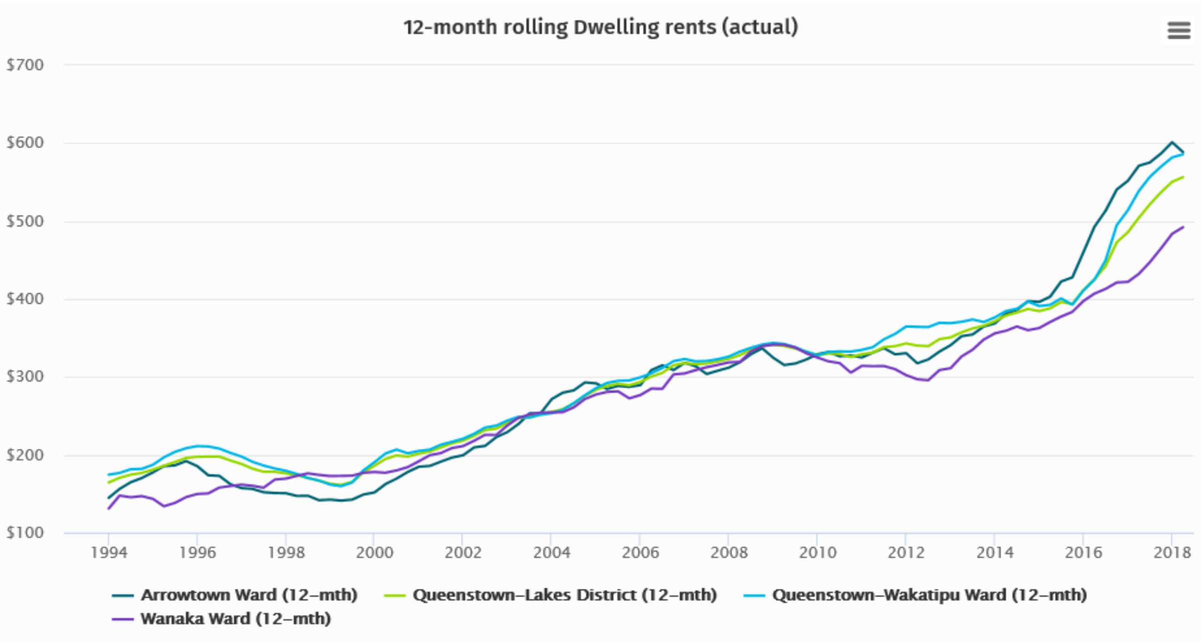
- In the year ending March 2018, the total number dwellings sold in QLD as a share of the dwelling stock was 1.258%.
- This is down on the previous quarter (YE December 2017) of 1.320%. The same time a year ago (YE March 2017), the percentage share was higher again on 1.685%. This is 9th quarter in a row of decline (i.e. since the last peak December 2015).
- The latest figures for Wanaka and Queenstown are very similar to the district overall (1.298% and 1.248% respectively). Arrowtown continues recent trends of a lower share of dwellings bought and sold (1.043% (YE March 2018).

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 and Greater Wellington having a slightly lower share of dwellings being sold and Greater Christchurch and Greater Tauranga having a slightly higher share (March 2018). 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:

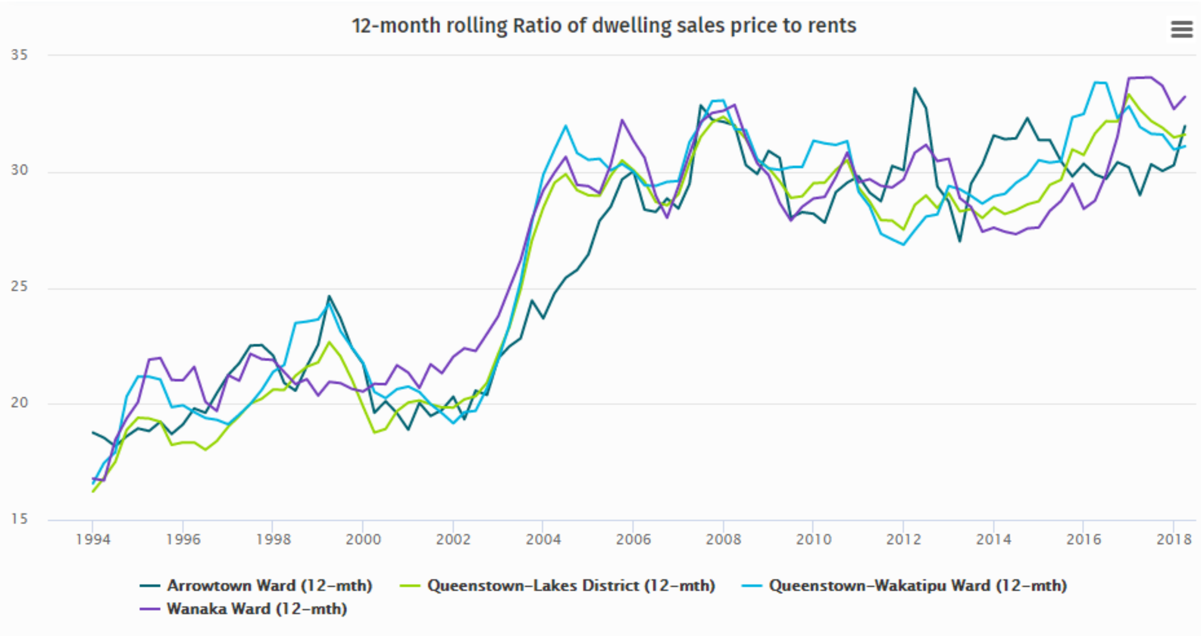
- The average weekly dwelling rent in QLD currently stands at $557. This is up just $6 per week (1%) compared to the previous quarter (YE December 2017). Compared to the same time 12 months ago (YE March 2017), average weekly rent has increased by $53 or 11%.
- Rent in Wanaka is below the district average at $492 per week. This has increased by $60 compared to the same time a year ago (YE March 2017) and has shown the fastest rate of increase over that period (14%) compared to the change in Queenstown (up 9% or $47) and Arrowtown (up 3% or 18).
- Average rent in Queenstown currently sits at $586 and is only slightly higher in Arrowtown ($589 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. For the first time in years, rents have reduced in Arrowtown in the March 2018 quarter and the rate of increase has slowed in Queenstown and Wanaka.

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:

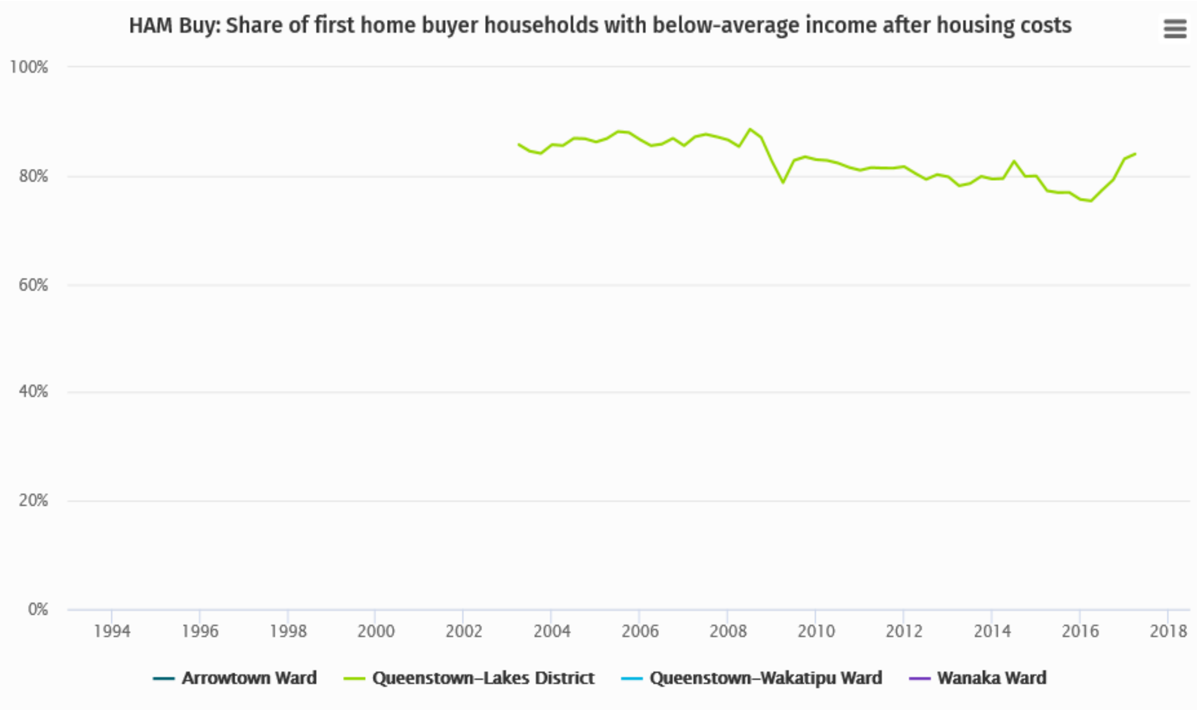
- The QLD current price to rent ratio is approximately 31.600 (increasing slightly from the previous quarter (YE December 2017) where it was 31.480. Compared to the same time a year ago (YE March 2017), the average ratio is down (from 32.673) (that is, the gap between renting and buying lessened slightly), but is very similar to where it was this time two years ago (YE March 2016) at 31.653.
- Wanaka remains the hardest place to transition from renting to home ownership. The current ratio is 33.235 (YE March 2018). The gap between renting and buying has become wider in Arrowtown, and over the last quarter has surpassed Queenstown.

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 March 2017).

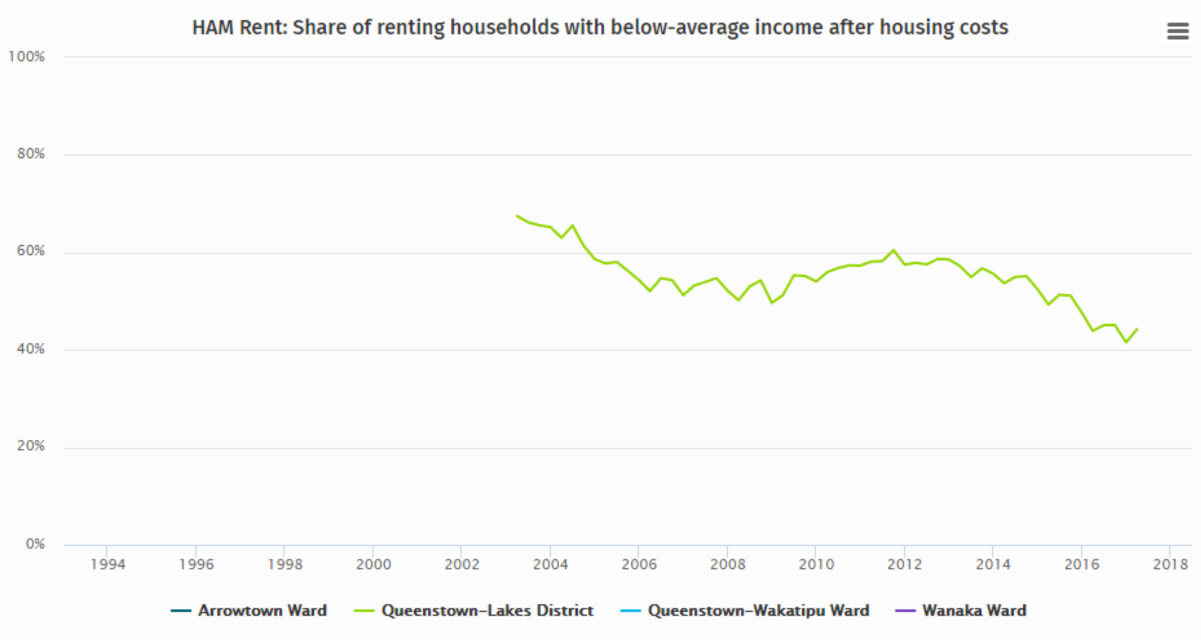
- The latest data shows that on average across QLD, 84.000% of first home buyer households would have a below average income after paying for housing costs.
- This percentage share has risen in the last quarter by 0.895 percentage points.
- Compared to the same time a year ago (YE March 2016), the percentage has risen by 8.661 percentage points (from 75.339% - the lowest level since the time series began in March 2003).

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. There was reason for added concern last quarter due to three consecutive quarterly rises in this indicator (which is bad news for first home buyers when affordability for first home buyers is already very low across QLD). However, this quarter shows a slow down in the rate of increase and may indicate a turning point to be confirmed next quarter (YE June 2018).

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 March 2017).

- The latest data shows that on average across QLD, 44.235% of renting households would have a below average income after paying for housing costs.
- This percentage share has risen in the last quarter by 2.682 percentage points (from 41.553% - the lowest level since the time series began in March 2003).
- Compared to the same time a year ago (YE March 2016), the percentage has risen by just 0.344 percentage points (from 43.891%).

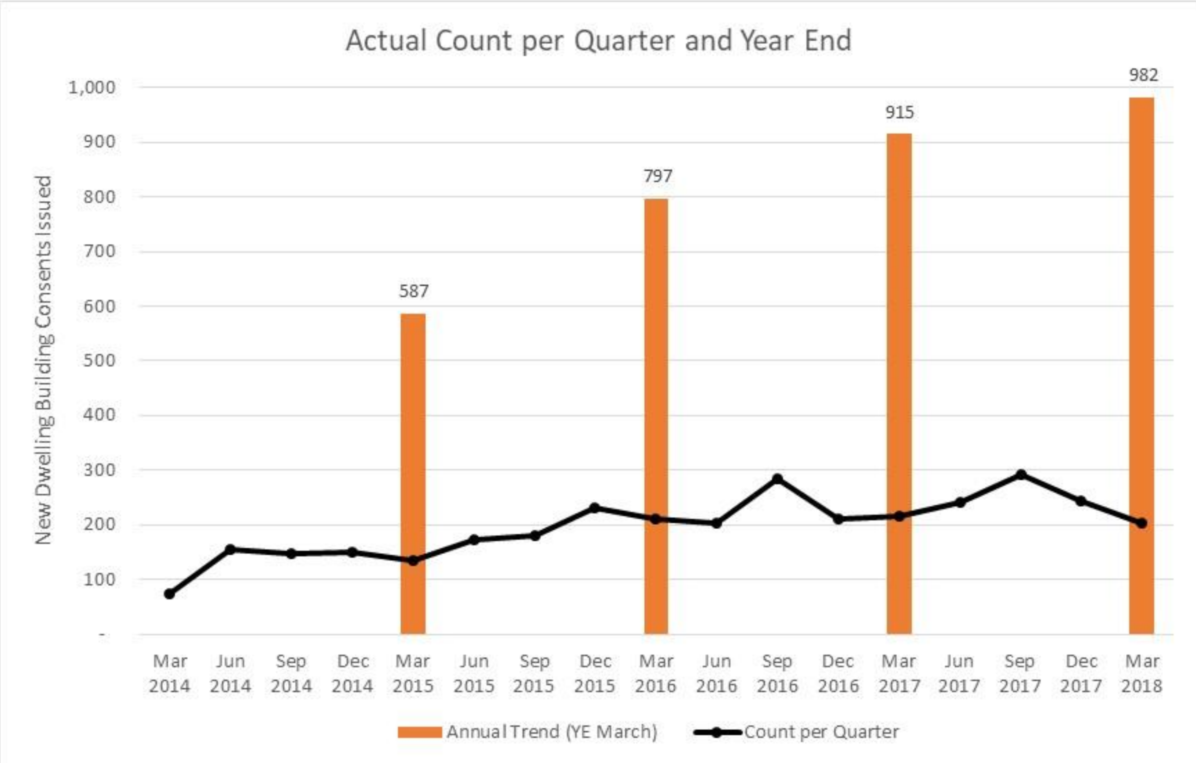
Commentary:

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 early 2018. 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.

3 Building Consents

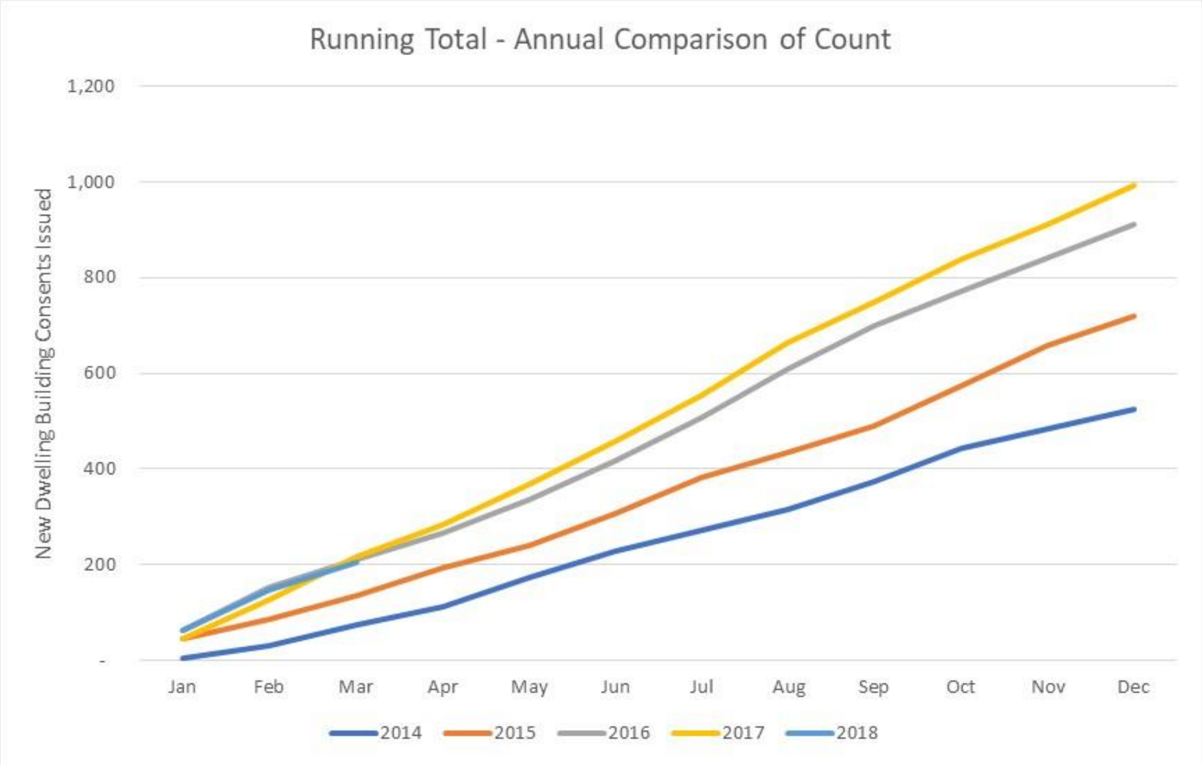
3.1 New Dwelling Consents Issued

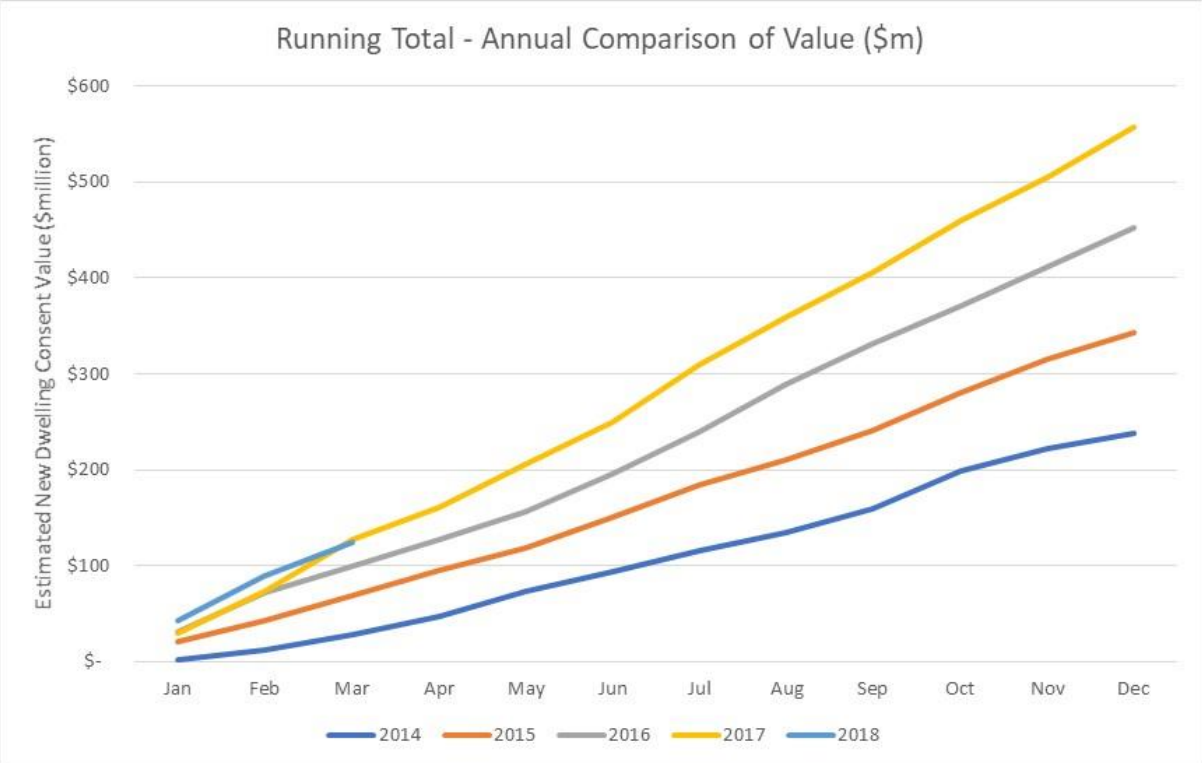
About this indicator: This indicator tracks the actual count of new dwelling building consents issued by QLDC each quarter and year (compiled from total district monthly data). Estimated value of consents is also monitored.



Latest Results:

- There were 204 new dwelling consents issued in the March 2018 quarter. This is 40 fewer consents issued compared to the December 2017 quarter (-16%).
- This is also slightly down on the same quarter a year ago (March 2017) where there were 216 dwelling consents issued.
- Over the last 12 months (YE March 2018), there have been a total of 982 new dwelling consents issued. This is an increase of 67 consents (7%) compared to the previous year (915 in YE March 2017).
- In terms of the estimated value of new dwelling consents, the total value in the March 2018 quarter was approximately $125m, only slightly below the equivalent quarter in 2017 ($127m) and well above the same quarter in previous years.
- The average value of new dwelling consents issued in March 2018 was $611,300. This was approximately $23,520 higher than in March 2017 (up 4%) although 2% less than the average in the previous quarter (December 2017).



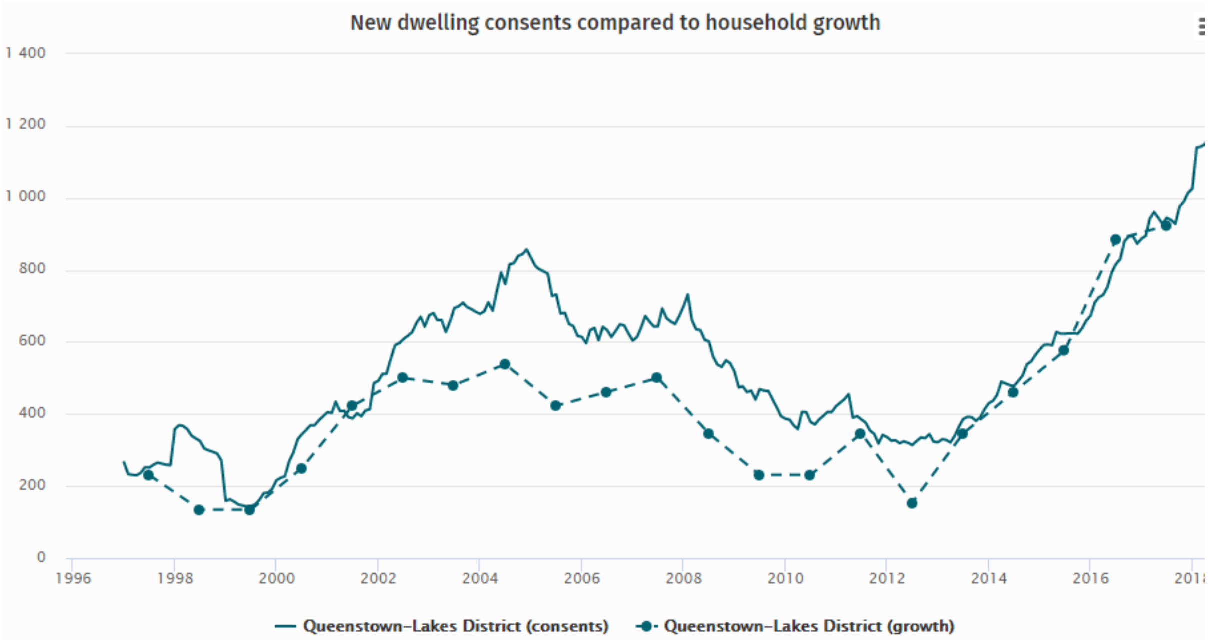


Commentary:

The count and value of dwelling consents got off to a good start in 2018 (above the count in early 2017). However, by March, the running total matches the count and value issued the previous year. It is too soon to tell if the count and value will start to track higher than the previous year in future 2018 quarters (continuing the trend of incremental annual growth).

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:

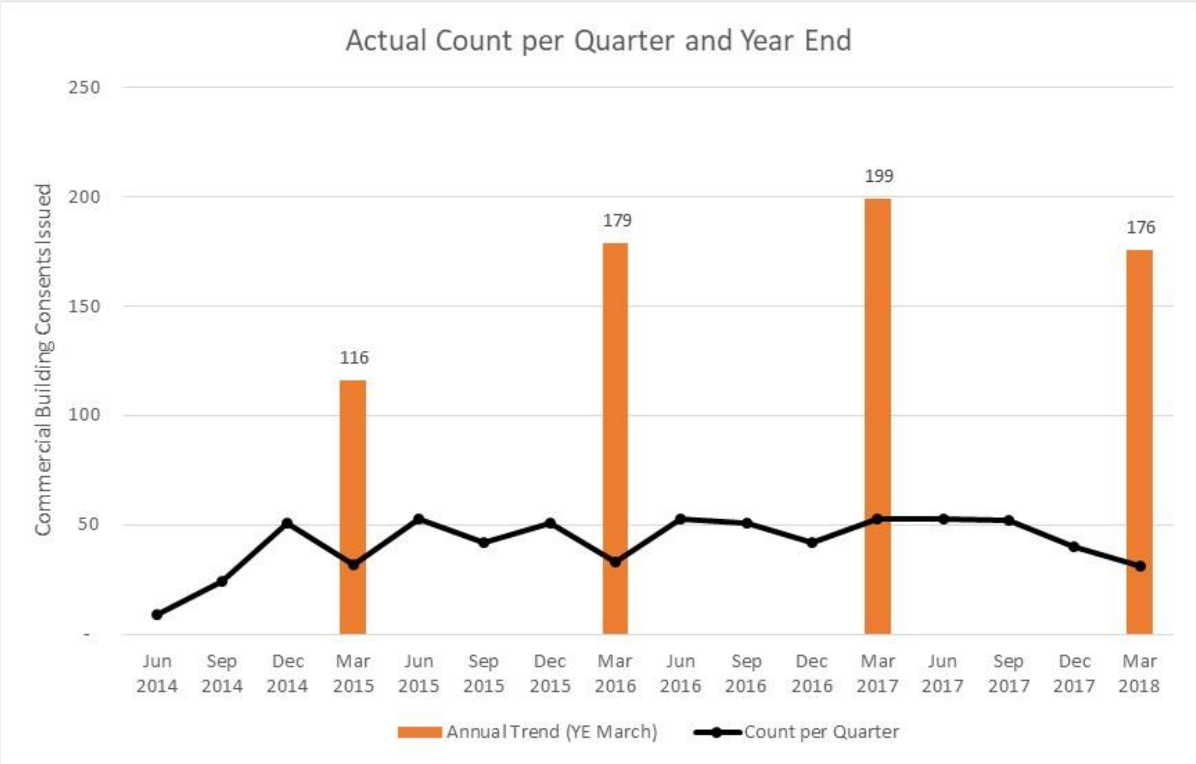
- This indicator contains new dwelling consents up to March 2018 and estimated household growth up to June 2017. Due to built in lags, care is needed when comparing new dwelling consent data with the previous indicator.
- The results show a steep increase in dwelling supply since August 2017.
- Annual growth in supply is well and truly at an all-time high and has been generally climbing steadily 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 (particularly in a slowing market). Rising sales and rent prices indicate strong dwelling demand that may not be being met by the market (or only just being met). The next quarterly result (June 2018) will include an update of household growth and we can then see if the close alignment with supply continues.

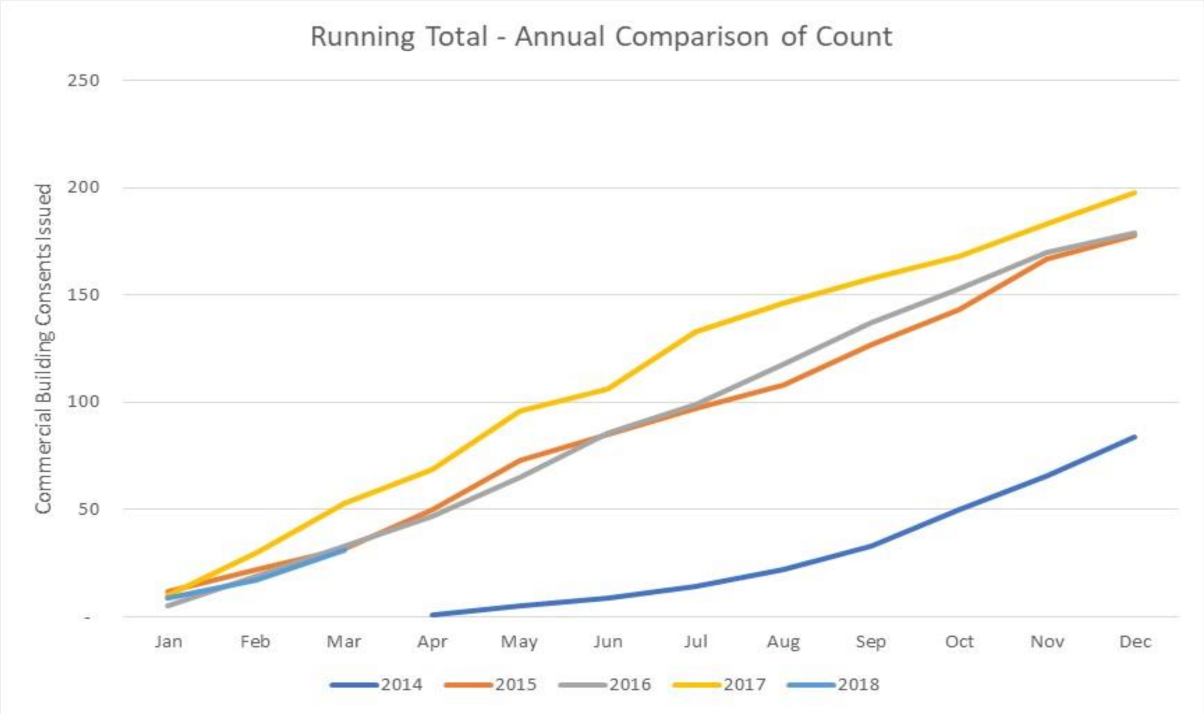
3.3 Commercial Building Consents Issued

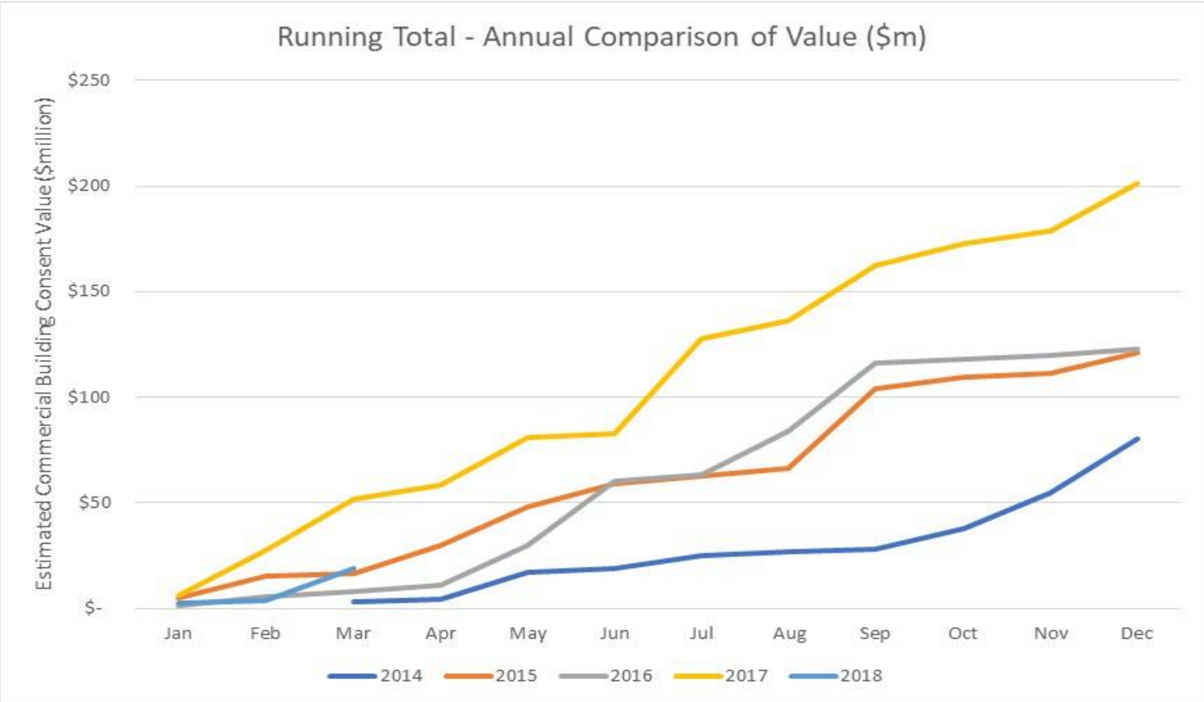
About this indicator: This indicator tracks the actual count of commercial building consents issued by QLDC each quarter and year (compiled from total district monthly data). Estimated value of consents is also monitored.



Latest Results:

- There were 31 commercial building consents issued in the March 2018 quarter. This is 9 fewer consents issued compared to the December 2017 quarter (-23%).
- This is also down on the same quarter a year ago (March 2017) where there were 53 commercial building consents issued.
- Over the last 12 months (YE March 2018), there have been a total of 176 commercial building consents issued. This is a decrease of 23 consents (-12%) compared to the previous year (199 in YE March 2017).
- In terms of the estimated value of commercial building consents, the total value in the March 2018 quarter was approximately $18.7m, significantly less than the equivalent quarter in 2017 ($51.6m) although not dissimilar to the equivalent quarter in 2016 ($16.8m).
- The average value of commercial building consents issued in March 2018 was $603,900. This was approximately $370,000 lower than in March 2017 (down 38%). It was also roughly $376,000 less than the average value in the previous quarter (December 2017).





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 in 2018, both the count and value of commercial consents issued is low compared to 2017. It is too soon to tell if 2017 was just a particular busy year for commercial consents of if there will be new waves/stages of commercial development reaching consent stage later in 2018 (~~for~~ For example, Three Parks, Frankton Flats or Remarkables Park ~~or Ballantyne Road for example~~) that might see cumulative growth rise to levels seen the previous year.