

Rotorua Evidence Brief

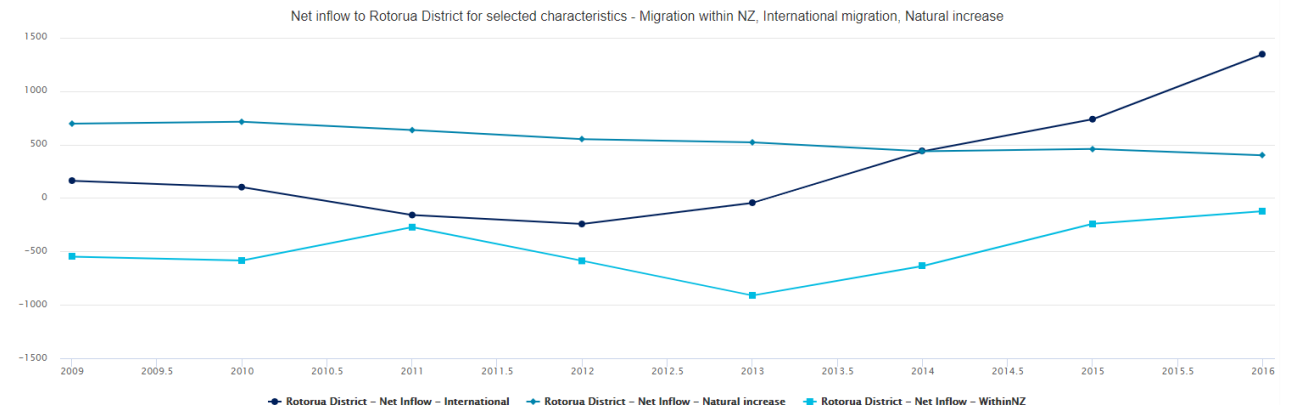
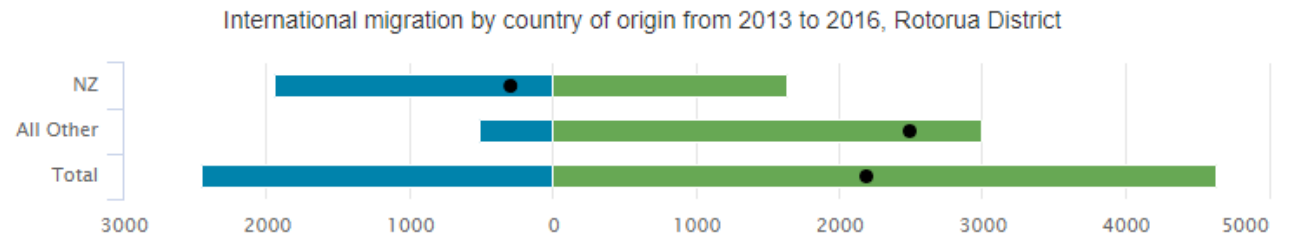
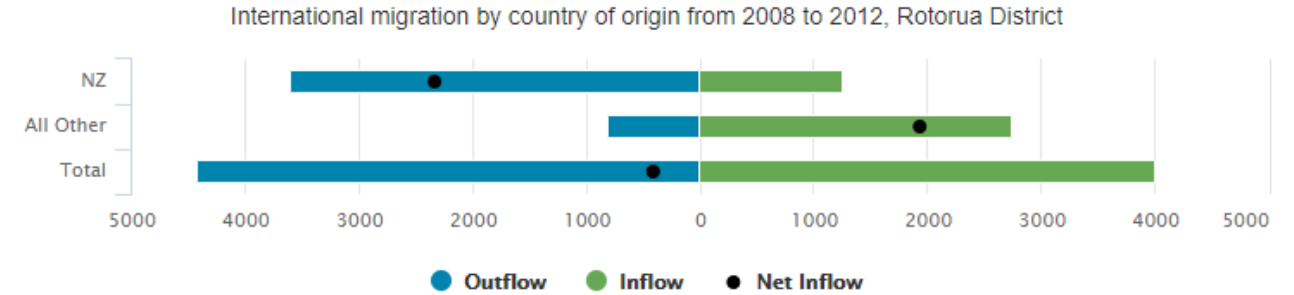
Initial Assessment

Emerging picture for Rotorua

- Demand for housing has been driven by population and income growth
- But development has been unresponsive to both population and significant increases in house prices.
- More homes were consented in the early 2000s when population was not growing (but prices were increasing).
- Rents have grown strongly since around 2015, coinciding with population growth and lack of development.
- House sale volumes increased sharply in 2016 across all buyer types, potentially reflecting relative affordability compared to the rest of the country. Volumes fell back to long term trend following increase in prices.
- Purchase affordability has worsened although higher prices have been offset by lower interest rates. Purchase affordability remains good compared to other parts of the country
- Rental affordability has worsened across the board, but more so for low income households. But the proportion of households paying rents that are “affordable” to them is unchanged.
- But rental affordability for lower income households has worsened significantly. Higher rents and a shortage of rentals at lower end of market appears to be a key driver of housing stress.

Population Growth and employment growth has been strong

- Usually resident population increased by 6597, to 71,887 (Census 2018). Census night population 75,915.
- Treasury analysis of population data shows a range of drivers [still awaiting 2017].
 - Significantly fewer people are leaving Rotorua to move overseas
 - More New Zealanders returning from overseas are settling in Rotorua
 - More New Zealanders moving to Rotorua from the rest of New Zealand
 - Significant net outflow of Māori from Rotorua to overseas reversed (between 2013 and 2016 as many returned as left)
 - More international migrants settling in Rotorua. Increases across international students, residence visas and temporary workers
- Data provided by MBIE indicates the number of people in employment increased by 3600 between 2013 and 2018.
 - Around 60% of the increase is made up by more Citizens
 - A further 20% of the increase reflects a higher number of employees holding resident visas or are recent residents, or on Essential Skills visas. Their income is 10-15% higher than NZ citizens
 - The remainder reflects an increase in students, working holiday and other visas holders.



Household income growth has been strong across the region, but varied.

Limited information is available on income at a territorial authority level.

Also sources on individual earned income at a regional level don't tell us about household income or incomes of those not in work which are both relevant to affordability of housing costs.

The Housing Affordability Measure does provide an indication of household income for Rotorua District by using unit record data of household income and housing costs. Information on income indicates:

- median incomes up 17% for all households and 26% for renters from 2014 to 2018
- income growth for lower income households was lower - 20th percentile income for renting households up only 18.5%
- Actual changes in income vary significantly by income.

Household income can also be affected by household composition. Limited access to and affordability of housing may increase people per household and also household income. So for some households increasing income may be due to crowding, reflecting worsening rather than improving outcomes

Actual income growth between 2014 and 2018 – in dollar and percentage terms

	Renters		All Households	
80 th percentile	\$18,225	21%	\$15,968	14%
60 th Percentile	\$14,513	25%	\$11,548	16%
40 th Percentile	\$10,354	26%	\$8,283	18%
20 th Percentile	\$4,725	18%	\$4,813	17%

Source: Housing affordability measure

But limited growth in the housing stock

- Census shows an increase in dwellings of 1017 between 2013 and 2018
- To maintain occupancy rate between census would have required a further 1500-1750 homes be built across the district
- Building Consents show a significant fall across all types of housing since the Global Financial Crisis – averaging 130 a year since 2008
- For the 15 years prior to the GFC consents were higher – between 200-300 a year - despite no population growth
- If consents had maintained pre-GFC levels there would be no shortfall.

Difficulty with projecting a “shortfall” of homes

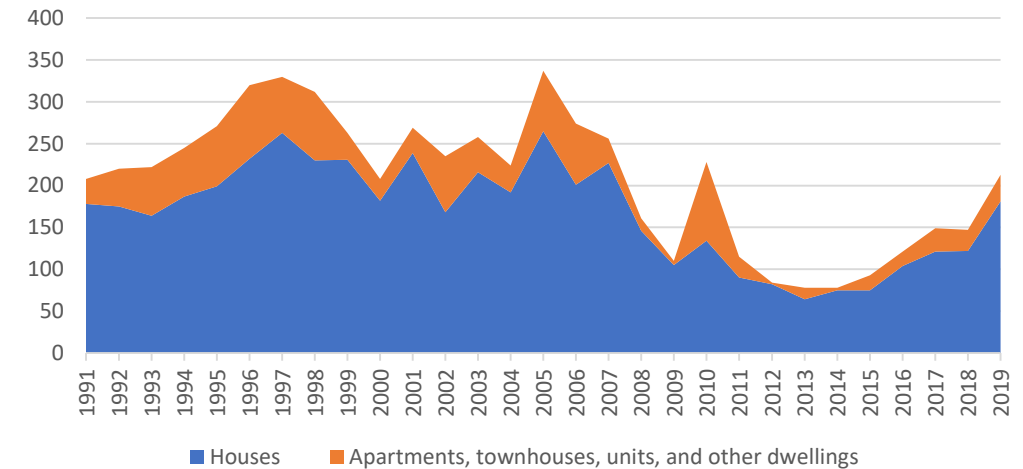
Any measure of a shortfall should be indicative only. This depends on assumptions of what the “steady state” occupancy rate might be and how homes are used.

- Changing demographic would suggest occupancy rates should fall.
- But areas with younger populations would have relatively higher occupancy rates
- Some areas like Queenstown have seen stock increase in line with population suggesting no shortfall. However some new homes are second homes and not available to locals to live in.
- Increase in the cost of housing – i.e. rents may lead to larger households to share costs
- District level analysis can mask differences across the population as occupancy rates for rented home are likely to have faster than owner occupiers.

Any measure is highly sensitive to start dates. If measured from 2006 census there would be no in Rotorua shortfall as occupancy rates across the district are similar to 2018. The recent sharp increase in rents would tell a different picture.

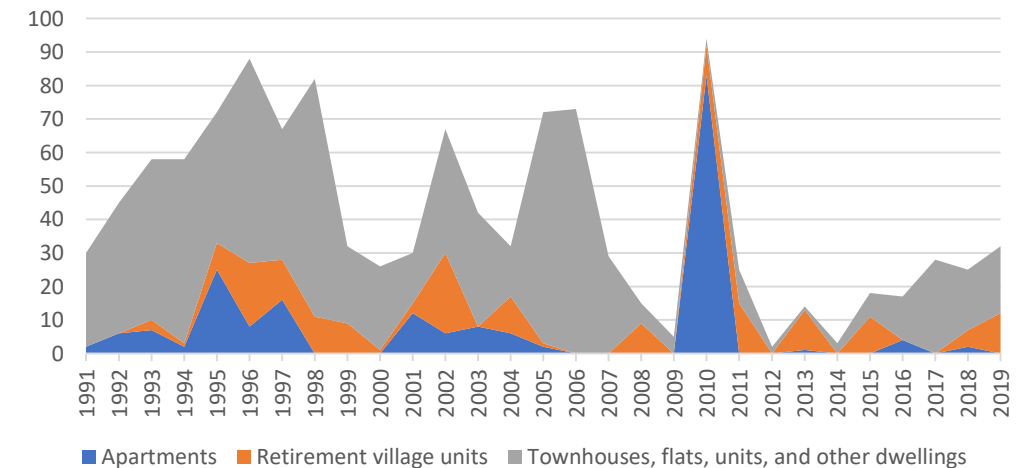
* The number of building consents don't seem to match the change in dwellings between census

Annual Building Consents - New builds



Source: Stats NZ

Annual Building Consents attached dwellings



Source: Stats NZ

Value of consents and cost of construction have increased too

The costs of construction have increased significantly over time as has the value of consents.

- Cost per square metre for standalone homes in Rotorua has increased by 33% since 2014 and 246% since 1991.
- The value of consents has also moved broadly line with average house prices.

Unclear the extent that increasing build costs reflect increasing quality demanded by buyers of new build homes. Homes have been getting smaller with average size of home consented falling to 180m² in the last two years, compared to an average of 201m² in the decade prior. Again unclear whether buyers are trading off quantity of house for quality.

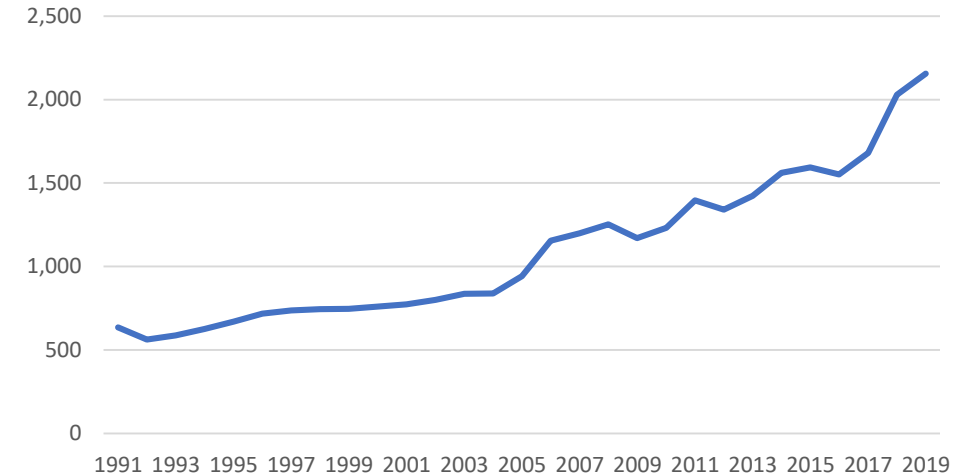
Value of consent does not take account cost of land, development costs and other levies.

What we can say is that the cost of new builds remain expensive relative to existing homes

Number of dwelling alternations has also grown. In the last decade the average number of alterations excluding outbuildings has been 330 compared with 140 the decade prior. This could reflect the higher cost of construction and owners choosing to renovate rather than build. It could also reflect improved quality of existing homes.

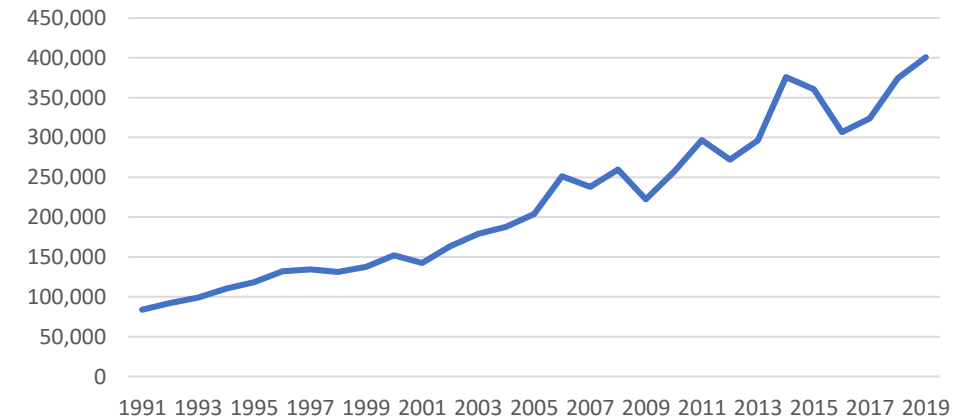
Work underway in next two weeks to provide data on the price of new build homes based on code of compliance and district valuation roll data provided by RLC

Rotorua: Cost per square metre - house



Source: Stats NZ

Rotorua: Consent value - House



Source: Stats NZ

Housing costs have increased sharply as more people chase limited housing

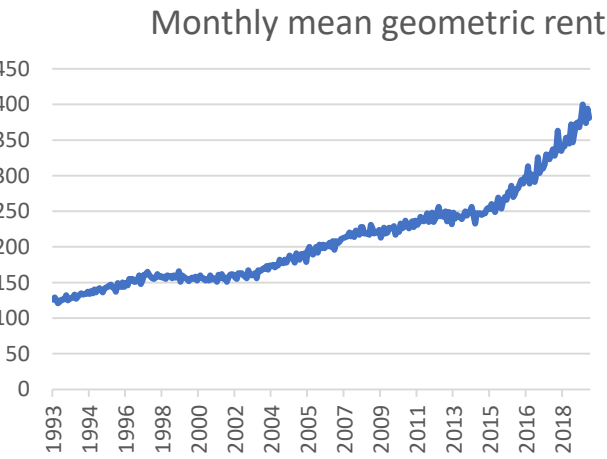
Both house prices and rents have increased significantly over time going through similar cycles. However in the last 5 years:

- The increase in rents has been particularly strong increasing by almost as much in the preceding 14 years.
- Rent growth has almost matched house price growth, whereas between 2003 and 2007 house prices increased significantly faster than rents.

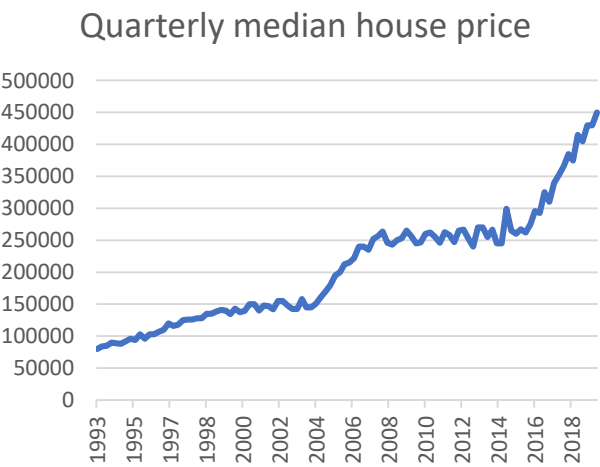
Recent rent growth is consistent with population growth exceeding construction. This suggests the dominant driver of house prices and rents has been an underlying shortfall in accommodation.

Between 2003 and 2007 the more moderate rent growth suggests that house prices were driven more by interest rates and access to credit affecting the value of housing as an asset and not an underlying shortage of accommodation.

	2000	2014	% change 00-14	2019	% change 14-19
Median Rent	156	248	59%	373	51%
Lower Quartile rent	129	203	58%	308	52%
Median House Price	138513	263500	90%	428750	63%

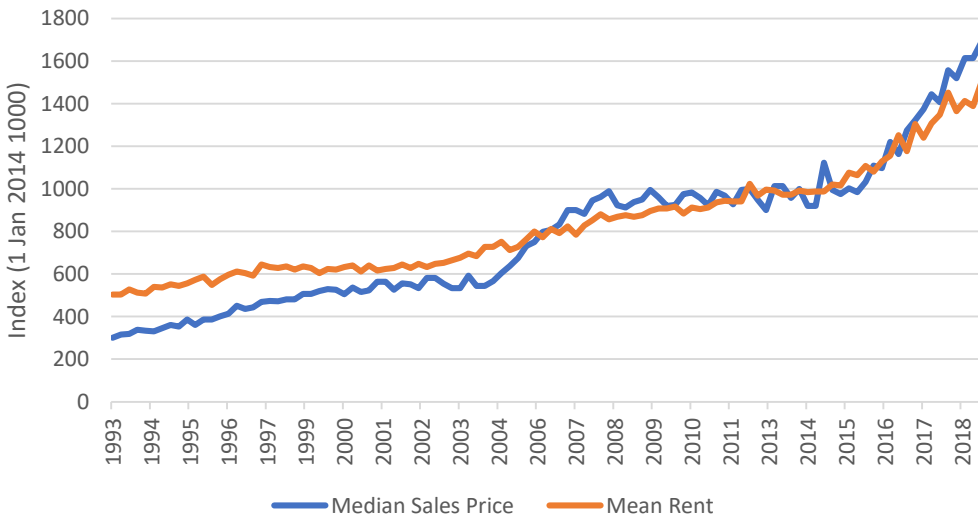


Source: MBIE Bond data



Source: NPS – UDC Dashboard

Relative growth in rents and house prices - this time it is different.



But with significant variation across the city*

The change in rents and prices has not been uniform across the city with no obvious pattern.

Some key take-outs include:

- Rent growth does not appear to be linked to home ownership, the proportion of public housing or proportion of Maori
- Some areas do stand out like Fordlands with high occupancy rates, high rent growth particularly at the lower quartile, low ownership and a high proportion of Maori
- Owhata West and Pleasant Heights have large increases in rents with low rates of home ownership.
- Western Heights has a very high rate of homeownership and the strongest increase in prices.

These patterns will be better informed by local information.

	Census Night Population	People per household	Home Ownership	Share public Housing	Proportion Maori	Med Rent 2019	5 year change	LQ rent 2019	5 Year change	Med Price 2019	5 year change
Rotorua District	75915	3.03	62%	3%	40%	375	48%	308	52%	428750	63%
Fordlands	2397	3.32	42%	19%	68%	341	66%	305	80%	210250	92%
Lynmore	3240	2.75	81%	0%	17%	478	39%	392	39%	682625	65%
Owhata East	3021	2.99	72%	1%	43%	382	44%	331	59%	406215	63%
Owhata West	3093	3.06	65%	1%	49%	384	60%	328	65%	364375	63%
Pukehangi North	2664	3.25	47%	12%	60%	364	41%	342	48%	364125	111%
Pukehangi South	2559	2.73	76%	1%	29%	380	33%	332	36%	441438	37%
Selwyn Heights	1119	3.22	53%	5%	58%	387	45%	303	25%	369333	91%
Utuhina	1464	2.80	60%	1%	37%	379	42%	354	55%	433500	100%
Victoria	2421	2.71	28%	2%	27%	289	42%	252	47%	386563	87%
Western Heights	999	2.87	84%	0%	30%	371	57%	336	65%	349813	140%

Source: Stats NZ Census 2018, MBIE Bond, NPS-UDC dashboard

* The table shows summary information for different suburbs. Different boundaries across census, MBIE Bond data and house price data mean the list is not exhaustive and includes those that are consistent across data sources.

Who is buying homes

Sales volumes increased sharply from September 2015 to over 500 sales a quarter, compared to an average of 300 sales a quarter over the prior 4 years.

This increase in volumes pushed prices up sharply with the volume of sales then falling back to around 350 a quarter.

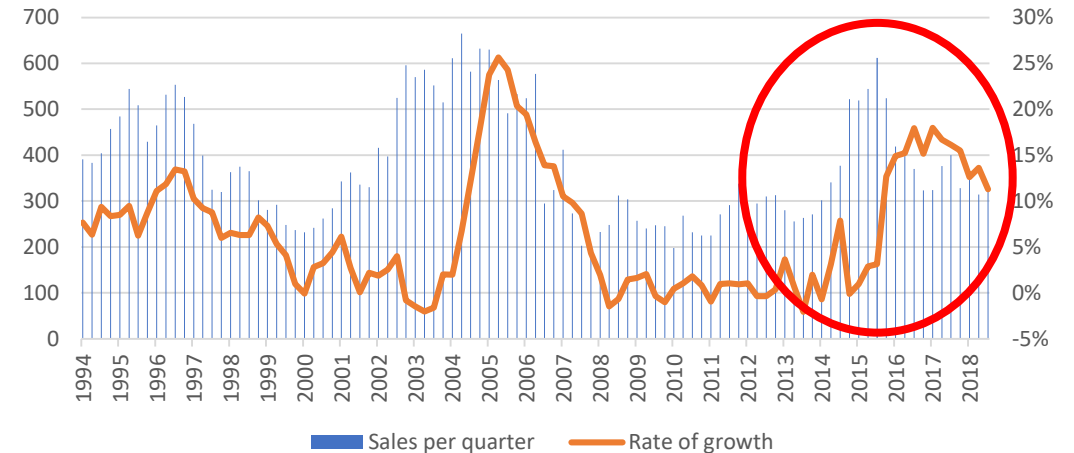
- Suggests surge in demand affected by relative affordability of homes in Rotorua compared to the rest of the country.
- This surge in sales is consistent with the “Auckland Ripple” effect. People selling up in one market and then purchasing in Rotorua made a small contribution to the spike in sales (around 30 per quarter)
- Although the number of sales increased sharply the proportion of homes bought by different types of buyers was largely unchanged suggesting investors (multiple property owners), first home buyers and those buying and selling within the market (movers) all increased purchases at the same time.
- A summary of what makes up each buyer category is set out in the annex.

The First Home Buyer share has been trending up despite increases in prices

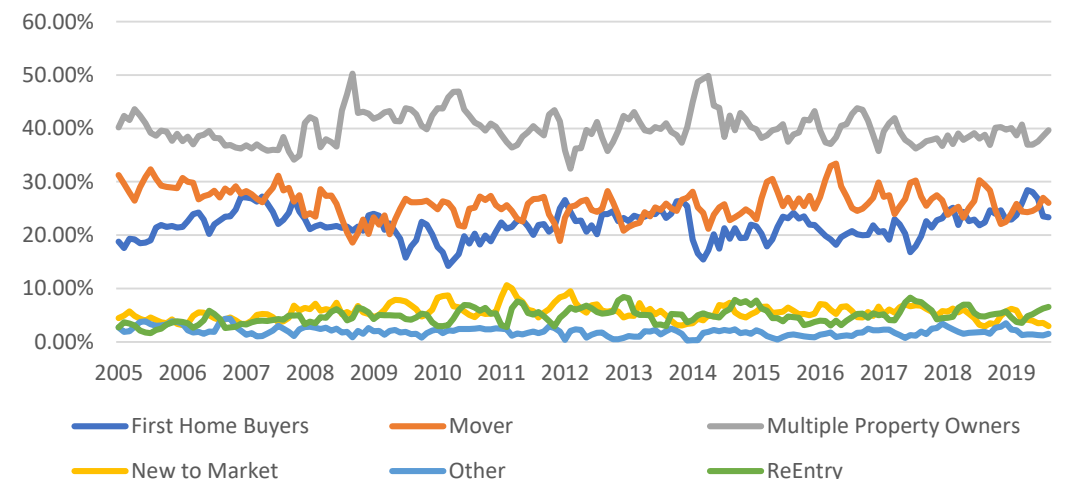
First home buyers are currently buying at lower prices compared to rest of market.

- In 2019 the average price paid by a First home buyer was \$380,000 and lower quartile price was \$326,000
- Those using First Home Grant – subject to income and price limits - are buying at average of \$311,000 with an average household income of \$69,000 (which is 110% of the median household income for renters)
- First Home Buyers using the First Home grant make up around 60% of FHB

Sales volumes and rate of growth (12 mth average)

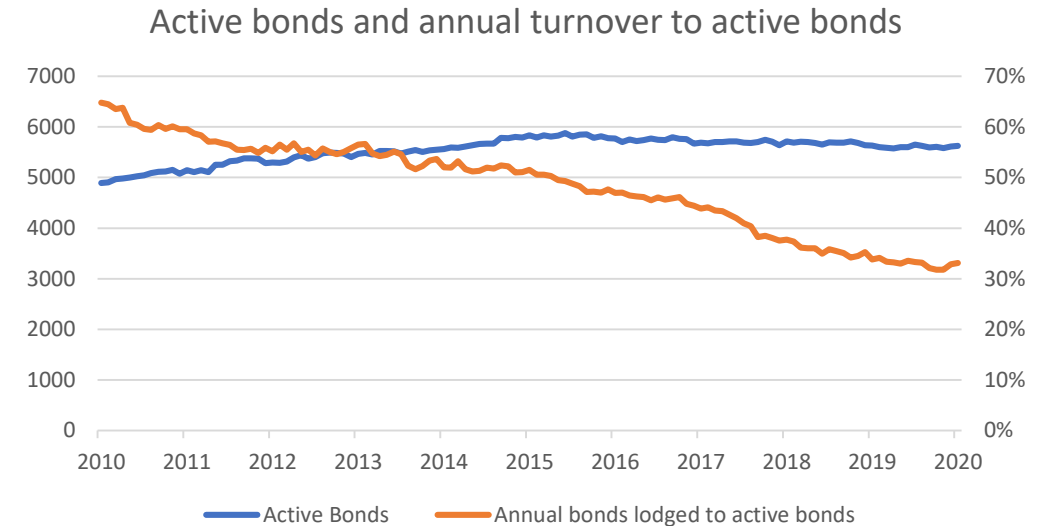


Buyer Classification

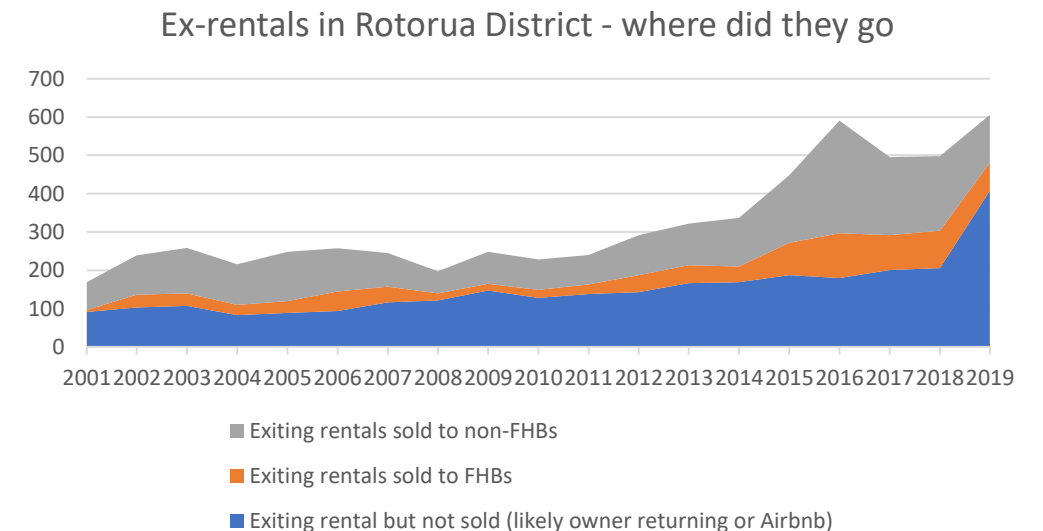


Use of non-owner occupied homes changing

- The number of active bonds has declined slightly since 2015. At the same time a smaller proportion of bonds are turned over each year.
- This means at that same time that population growth has increased demand for rental properties, fewer are available through
 - Rental homes coming off the market,
 - Renters staying in their current rental longer.
- The number of homes exiting the rental market has increased since around 2014, with as many as 10% of rental properties not being re-tenanted each year.
- The majority of rentals that are not re-let are either:
 - purchased by non-first home buyers (investors or movers). Homes bought by investors are likely to be rented through another platform
 - not sold and either lived in by the owner or rented through another platform
- Increasing use of short term rental accommodation (i.e. Air BNB) will be one driver of the reduction in active bonds. The exact extent remains unclear. Stats NZ is looking at getting data on short term rental accommodation usage.



Source: MBIE bond data

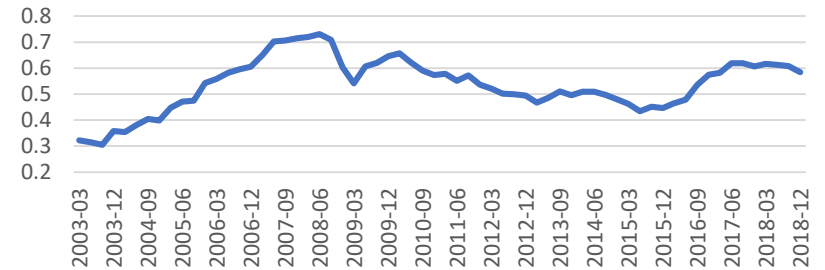


Source: HUD calculation based on MBIE Bond data and Corelogic

Housing affordability

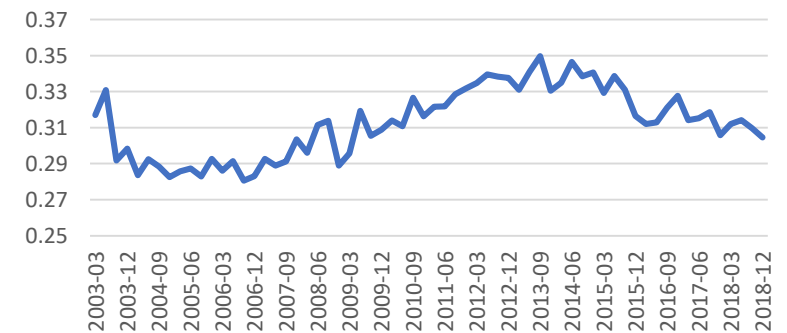
- Recent increases in house prices have increased the proportion of households who cannot afford to purchase a LQ priced home where they live. The ratio of the median house price to median renter income has also increased.
- However despite significant increases in rent, the **proportion** of renters spending more than 30% of income on rent has declined in recent years. However given the significant increase in rents, and that rents have moved faster than incomes, households may be sharing accommodation or accepting lower levels of quality than in the past.
- More problematic is that households in Rotorua District who are spending more than 30% of income on rent are spending significantly more. A renting household earning the 20% percentile income and paying a Lower Quartile rent spends 48% of their income on rent now compared with 35% in now.
- A household on the median income paying mean rent would have seen rent increase from 23% to 29% of income

Renting households spending more than 30% of income mortgage servicing costs if purchasing lower quartile home



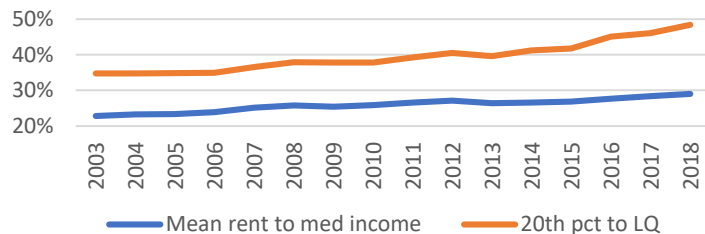
Source: Housing Affordability Measure

Proportion of renters spending more than 30% of income on rent



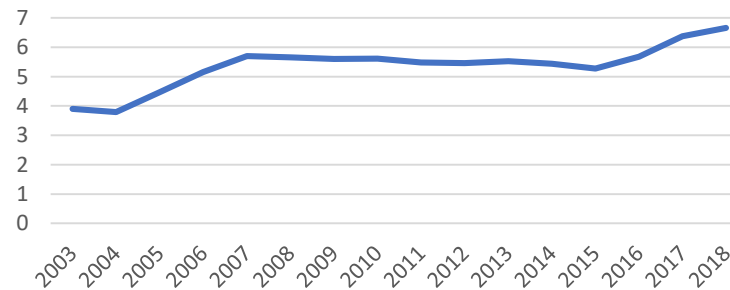
Source: Housing Affordability Measure

Rent to income ratio for low and median income household



Source: HUD calculation, Housing Affordability Measure, MBIE bonds

Median House Price to median renter income

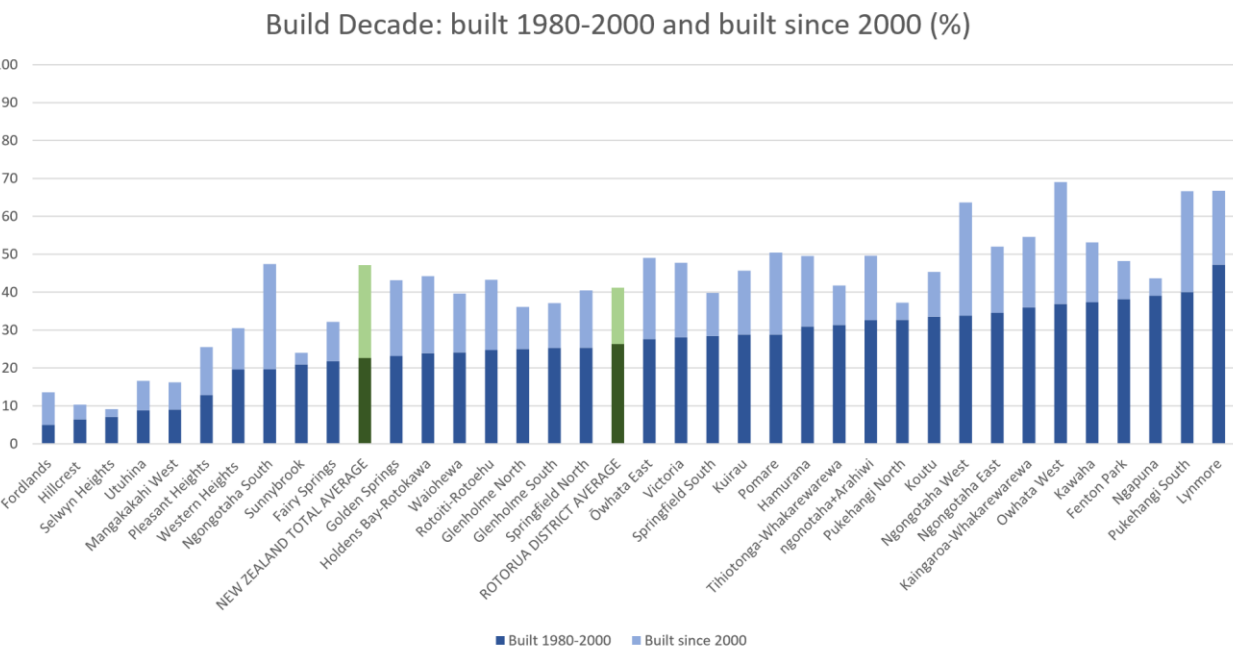


Source: HUD calculation

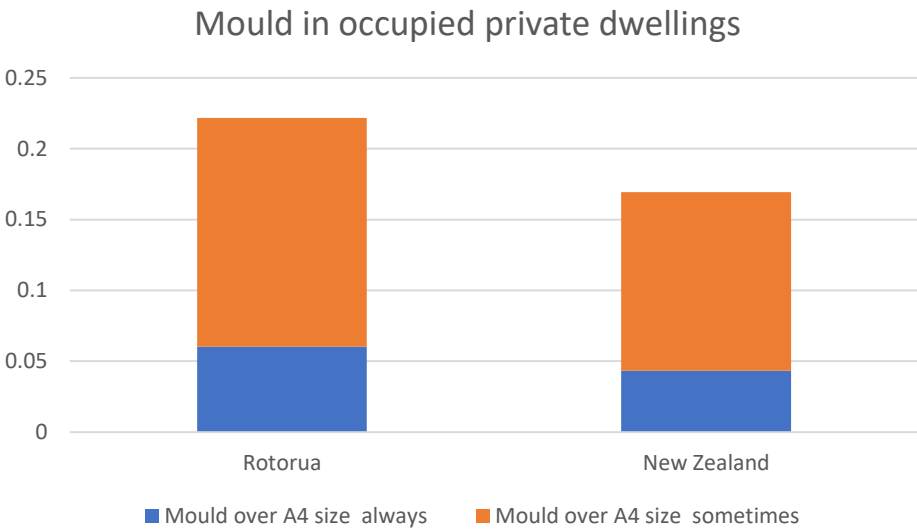
Housing Quality

Rotorua has a higher proportion of homes that are damp or mouldy compared to the national average. Also has higher proportion of homes of unknown condition (16% compared to 10-11% nationally)

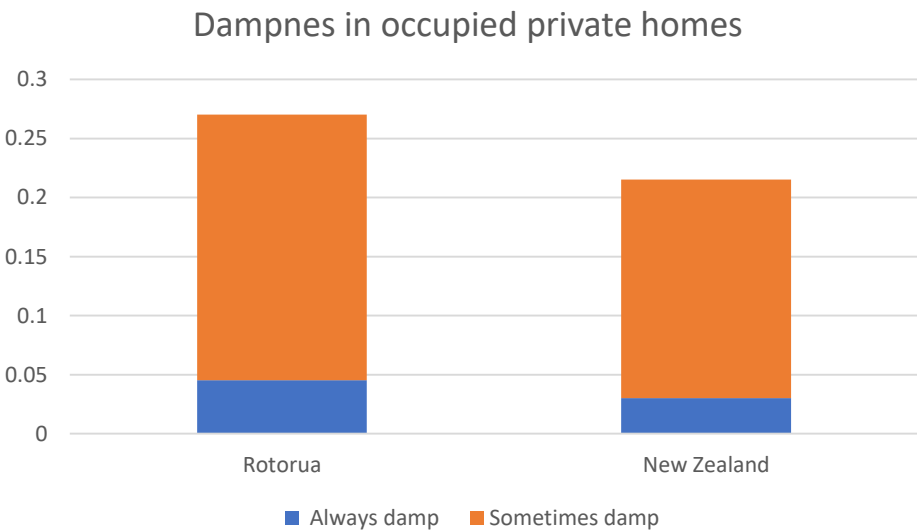
Areas that have a lower proportion of homes built since 1980 tend to have higher levels of problems with dampness and mould. Are also more likely to be rentals.



Source: Corelogic



Source: Census 2018



Source: Census 2018

Acute need is continuing to increase

The Housing register continues to increase. 93% of applicants are Priority A.

78% of applicants require one or two bed homes where the majority of Public Homes are two and three beds

223 people were in emergency housing on 31 January 2020:

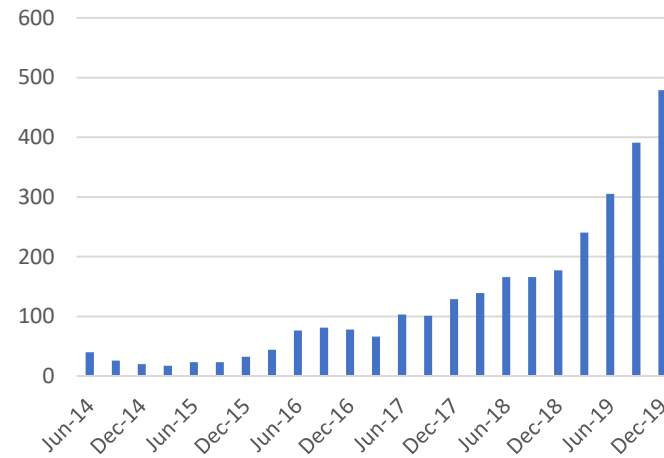
- 188 were single individuals or sole parents
- All but 7 received a benefit (excluding superannuation)
- 196 identified as Māori
- Half had been on the housing register for more than 3 months.

MSD spent \$11.4m on motels in 2019. Spending more than \$1.4m in 2 and more than \$500k in a further 4.

Those in emergency housing do not include those in the night shelter.

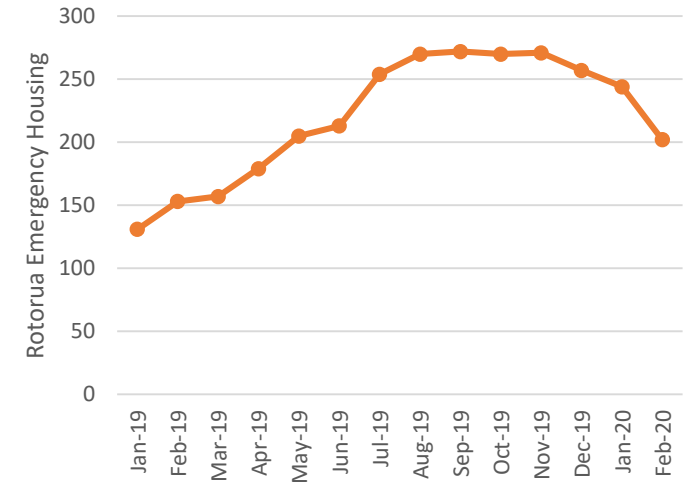
The high proportion of single adult and sole parents likely reflects a severe shortage of rental homes that are available and affordable to households on a single benefit income

Housing Register - Rotorua District



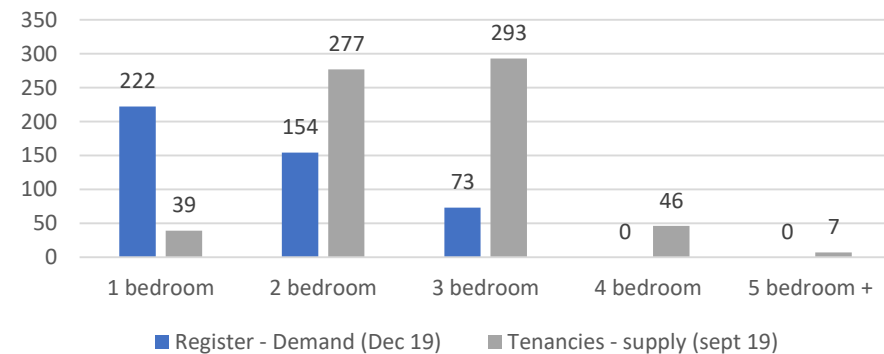
Source: MSD

Clients per month



Source: MSD

Demand from register compared to existing stock



Source: MSD and HUD (note register demand for 4 and 5 bed homes suppressed due to small number)

Stock of subsidised rentals is low and growth slow

For Rotorua has a significant gap between the number of public homes and applicants on the register:

- For Territorial authorities with more than 50 applicants on register, register as proportion of current public homes in Rotorua highest in country.

The **Public Housing Plan** sought **80 additional public homes** for Rotorua by June 2022. A further 105 places are funded for Housing First.

- Kāinga Ora has completed 4 new builds to date with a further 32-34 to be completed by December 2021.

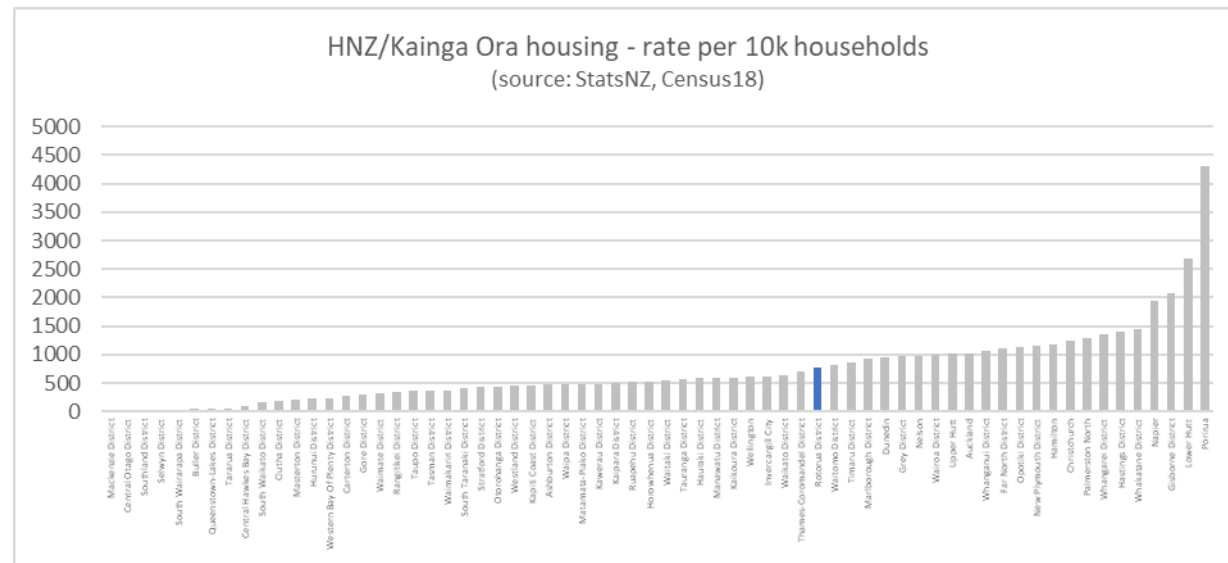
Rotorua has limited Transitional Housing and of varied quality:

Range of housing providers

- 45 places from night shelter
- Salvation Army and Link People 18 places
- Woman's Refuge 7
- Emerge contracted motels 19

KO purchased 11 in November and December as part of the 1000 additional transitional homes funded through the homelessness action plan

Comment on Council housing



Key issues:

- Acute shortage of housing means that Kāinga Ora, CHPs and THPs can't significantly increase supply by purchasing or leasing existing homes
- New builds require capital which CHPs and THPs do not have. Up front funding for public housing is not available under current settings.
- New builds require lead time – this is why KO has delivered 4 new builds since July 2018.
- There is limited CHP/Housing provider presence with asset management experience presenting challenges to investor lease approaches.
- Market rents available to CHPs or THPs were set in 2016 and no longer reflect actual rents in the Rotorua market.

Why the lack of urban development?

Consents fell significantly during the Global financial Crisis and remained low for some time. This pattern was reflected across the country: Prices fell due to reduced demand and the collapse of finance companies removed a dominant form of developer finance.

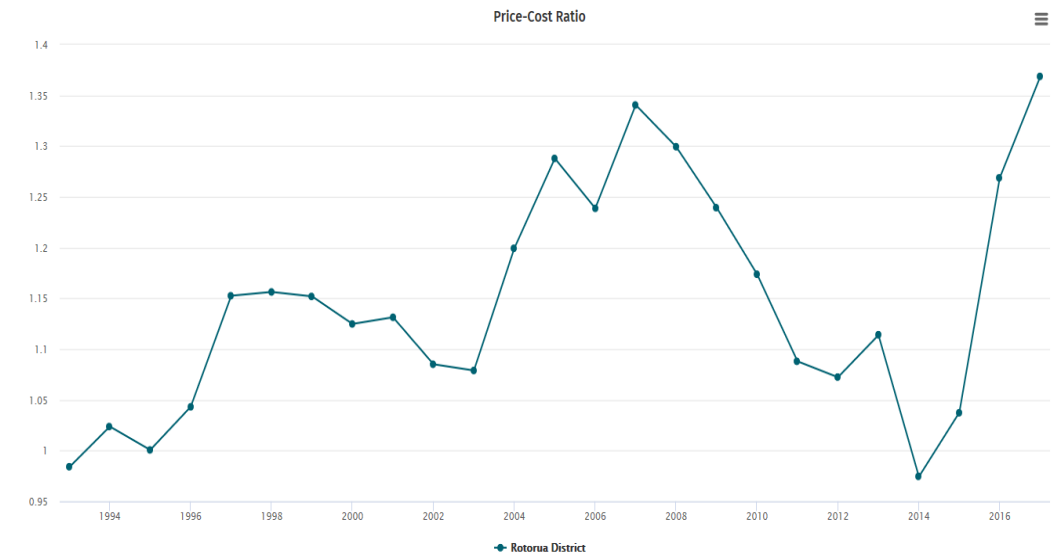
But why has development been so slow to respond to recent increases in demand and prices?

One driver appear to be that the low price of existing homes reduced demand for new builds.

The low number of consents following the GFC coincides with a sustained fall in the **price-cost ratio** which compares the cost of constructing a new home (excluding land and infrastructure) to the price of existing properties.

- A price cost ratio of around one would indicate that new build homes once land and other development costs are included are more expensive than homes that could be bought on the market. This would suggest demand for new homes could be limited as buyers can find what a cheaper alternative on the market.
- For comparison the price cost ratio in Auckland is 2.7 suggesting cost of construction is less than 40% of the cost of purchasing an existing property (the rest is land). In Auckland more buyers are likely to see new builds – particularly townhouses and apartments – as affordable alternatives to existing homes in high demand areas.

A low price cost ratio would mean that the market for new build homes would only profitably meet a small proportion of demand. Remaining demand would need to be accommodated within the existing housing stock – pushing up prices and rents.



Source: NPS UDC Dashboard

Low prices provided may have provided weak incentives to develop

Low incentive to convert land from urban to rural use

Relative to other medium and high growth areas Rotorua had a smaller difference between the value of rural and urban zoned land based on 2014 data. [we are in the process of updating for latest valuation – date TBC]

The modest differential may equate to \$400k per h.a. which compared to land development, infrastructure costs and other risks may not be sufficient to encourage development relative to existing uses. Alternatively landowners may be content to wait for prices to rise (“land bank”)

The limited development intentions signalled to Council by owners of residentially zoned land would be consistent with the weak profitability.

The next slide considers some potential constraints or costs to development.

Modest profits from intensification/subdivision may be outweighed by costs.

Council indicate approximately 8000 additional residential sites could be created through infill development using current District Plan provisions. However:

- The number of dwellings created through infill development or subdivision has been limited with 49 dwellings created in the 2017/8 financial year and 18 dwellings in the 2018/2019.
- Anecdotally costs associated with subdivision have increased since the before the GFC meaning reducing profitability of infill development for current owners.

Generally land values are fairly low in the existing urban area, suggesting limited profit from infill. As potential sites are owned by “mums and dads” higher costs and uncertainty means significant redevelopment of existing housing is unlikely likely.

Urban area	Ratio	Difference (\$/m2)	Difference (\$/600m section) ¹
Auckland	3.15	\$345	\$206,722
Blenheim	1.46	\$61	\$36,303
Christchurch	2.23	\$150	\$90,136
Dunedin	1.29	\$38	\$22,505
Gisborne	1.22	\$24	\$14,352
Hamilton	2.42	\$227	\$136,213
Napier	1.66	\$102	\$61,372
Nelson	2.10	\$153	\$91,671
New Plymouth	1.61	\$92	\$55,080
Palmerston North	1.57	\$73	\$43,902
Queenstown	3.12	\$337	\$202,485
Rotorua	1.33	\$46	\$27,441
Tauranga	2.02	\$232	\$139,135
Wellington	2.30	\$201	\$120,371
Whangarei	2.00	\$80	\$48,064

¹ The example of an 600m section is provided as a typical size section at the edge of many cities.

Source: NPS UDC Dashboard

Land development may remain limited

Prices have risen significantly since 2014 suggesting incentives to develop are how higher.
However:

- Constraints and concentrated landownership may limit rate of development.
- Higher build costs may mean increased profit to landowners from higher prices is limited [see slide 6]

Limited land available for development

Council's assessment as part of its Streamlined Plan Process application, recently approved by the Minister for the Environment, indicates as little as a third of the land may be available for development. Available land is mostly held by two landowners.

Potential constraints limiting actual development include: subsidence, flooding, stormwater disposal, transport and limited landowner interest to develop.

Constraints either mean development costs are higher, at lower yields or cant be developed at all.

We have heard particular issues around the cost of meeting Regional Council stormwater and flooding requirements. More generally:

- there has been little investment in growth infrastructure in the 2018 Long term Plan
- the council does not have development contributions.
- There appears a mismatch between stormwater and wastewater asset quality and remaining useful life. See for wastewater in bottom right chart – 2/3 assets poor or very poor, yet renewal 20 years away based on projected useful life

Transport investment is also a key dependency

Uncertainty about potential infrastructure costs and how these will be met may be a factor limiting new development

Category:	Central Rotorua and Ngongotaha	District-wide
Residential land > 7500m ²	328ha	413ha
Potential constraints	125ha	125ha
Maori Land (outside of potential constraint area)	10ha	61ha
Alternate Use	10ha	10ha
In Process (outside of potential constraint area)	68ha	68ha
Available (remaining land)	115ha	149ha

Source: RLC Application for Streamlined Plan Change Process for Pukehungi Heights

Waste water asset condition and remaining life



Figure 25: Condition Summary Analysis & Renewal Demand Profile

Source: RLC 2018 Long Term Plan

What all these factors mean:

Poor development economics driving a lack of urban development responsiveness

- The cost of new build homes is high relative to the price of existing housing and incomes.
- This means that the market will only meet a small proportion of new demand.
- Over the longer term where demand is growing prices and rents are likely to tend towards the cost to build which can be out of step with local incomes.
- In recent years Rotorua seems to have experienced strongly rising rents reflecting an underlying shortage in accommodation
- However rising building costs has meant reduced ability of market to respond to increasing demand
- To meet demand for housing interventions are needed to meet gap between cost of new housing and what people can afford through:
 - Reducing cost to build new homes – i.e. regulatory and building costs
 - Finding different ways to meet the gap between cost of housing and what people can afford to pay

Meaning that those on lowest income have borne the brunt of the shortage of accommodation

- Rising rents have widened the gap between actual housing costs and what is affordable to low income households. Availability of rentals has also reduced
- This has driven the increasing number of applicants on the register, use of motels and the shelter. Absence of stable housing is limiting ability to deal with chronic homelessness
- But there are potentially 2500 renting households who are stressed, and facing increasing housing costs (30% of all households in rentals):
 - For 20th percentile household to have rental affordable to them, LQ rent would need to fall from current level of around \$300 to \$184 per week. This reflects a gap of \$116 per week, and is after accommodation supplement is taken into account.
 - In 2010 this gap was \$35 with LQ rent of \$180 and rent affordable to household of \$145.
- This means solutions are not just about building public housing and market housing, but finding a mix of interventions that increases the number of rental homes that are affordable to low income renting households – whether existing homes or new ones.

Buyer Classification

- **Movers** are existing owners who have bought and sold a home either within the same housing market or moving from another.
- **First home buyers** are where all purchasers on the title have not owned a home previously and the home is purchased with a mortgage.
- **Multiple Property Owner** is where purchasers who already own a property, i.e. investors, or owner occupiers purchasing a holiday home. Cash refers to properties that are not purchased with a mortgage (i.e. no mortgage on the title). However cash purchasers may be funded from equity generated from a wider portfolio which is debt funded.
- **New to Market** reflects buyers who have not previously owned a home in New Zealand and are purchasing with out a mortgage. Some will be first home buyers.
- **Re-entry** reflects buyers who have previously owned a home but not within the last 6 months. This would cover the “second chancers” and residents who have lived overseas returning to New Zealand.
- **Other buyers** is a catch all bucket for any property purchases that do not fit into one of the above classifications. For example situations such as some but not all owners names changing.