

HOUSING UPDATE 2008

A REPORT ON NEW ZEALAND HOUSING MARKETS

BY

THE SALVATION ARMY
SOCIAL POLICY & PARLIAMENTARY UNIT
P.O. BOX 76249 MANUKAU CITY

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OVERVIEW & OUTLOOK

This brief report is intended to provide those people interested in housing issues with a statistical overview of housing markets in New Zealand. Such an overview is intended to provide a basis for discussion around the future direction of housing policy over the short to medium term. The data for this report is taken entirely from public sources but has been collected and analysed in such a way that we hope will provide some useful insights for future policy discussion.

This report considers four aspects of New Zealand's housing markets and covers a period of three to five years depending on the availability and relevance of data. The four aspects are:

- **Residential property markets** including house sales, house prices and rental housing
- **Housing and financial markets** including household assets, housing debt and mortgages
- **Construction industry** including the production of housing, the turnover of the construction sector and construction sector employment.
- **Housing demand forecasts** including an analysis of levels of construction necessary to adequately meet housing demand.

Key conclusions from this analysis are as follows:

- 1) While house prices have fallen and house buying has become more affordable there are still significant adjustments required until home ownership is broadly achievable for modest income households.
- 2) The value of residential rents has remained relatively stable in income terms. This stability is against a background of very poor rates of return for landlords. The declining house prices with some minor interest rate falls have narrowed the gap between finance costs and rental yields although there is still a significant gap to close before further investment in rental housing would be worthwhile.
- 3) Consents for new dwellings and the value of construction work have declined continuously since late 2007 although there has not been a significant decline in construction sector employment to date. If this decline in building activity continues for more than a further three months it is likely that the sector will begin to shed at least 10,000 jobs and perhaps as many as 15,000 jobs. There is some anecdotal evidence that these layoffs have already started.
- 4) The indebtedness of New Zealand households doubled (in nominal dollar terms) over the five years to December 2007 matched by a near doubling of house values. Household incomes did not keep pace with this indebtedness or these house values, with the results that mortgage debt servicing costs have risen to 12% of household income and mortgage debt to 150% of household income.
- 5) Growth in the value and number of mortgages appears to have slowed recently although the causes for this slow down are difficult to identify. There is some evidence that consumer and business debt has been financed through residential mortgages even until quite recently. This practice may become quite restricted if house values continue to decline and New Zealand's reliance of foreign capital continues. Evidence of such a shift will be apparent in mortgage volumes over the next three to six months.
- 6) Historically there has been a relationship between house sales and house building. House sales have nearly halved in volume and value over the past year (to September 2008) and if this downturn continues it is possible new house building could decline by 50% as well perhaps to less than 15,000 dwellings annually.
- 7) It appears that new house building of the order of 18,000 to 19,000 dwellings annually are sufficient to provide housing at current occupancy rates and to cater for present population growth patterns. Such a prescription requires migration flows to remain at present levels which is a condition of considerable uncertainty.

- 8) The greatest area of uncertainty in predicting migration flows is around outward migration to Australia. Each year between 20,000 and 30,000 New Zealanders leave for Australia permanently. Australia is facing similar economic pressures as New Zealand as well as a housing shortage in Sydney and Brisbane. The outward migration flows to Australia may decline quickly which if not matched by a similar reduction in inward migration will soon translate into a housing shortage particularly in Auckland.
- 9) There is some evidence of a growing housing shortage in Auckland which over the last year has seen a 22% reduction in rates of house building while annual population growth has remained quite steady at 1.5%. Our analysis suggests that this construction slowdown has over the past year resulted in a housing deficit of 2,500 dwellings half of which are in Manukau City.

The current widespread uncertainty in the housing markets is well known. This uncertainty arises not just because of the declines and reversals in most dimensions of the housing market such as with tenure (purchase and renting), finance and construction but also because of the complex inter-dependencies between these. This uncertainty and complexity means that most forecasts and predictions around the housing market are speculative at best. Because of this no attempt at forecasting or predicting trends is made here.

There are however a number of key indicators which will provide us with an indication of what the immediate future holds for housing during these uncertain times. These indicators are:

House sales volumes as published by the Real Estate Institute of New Zealand. If we see an increase in the volume of house sales with no further declines in house values we most likely will see a subsequent increase in new house building.

House sale prices also as published by the Real Estate Institute of New Zealand. If we see further declines in house values it seems likely mortgage lending will also decline at the same time on account of households' deteriorating equity position.

Rents as published by the Real Estate Institute of New Zealand and the Department of Building and Housing. Further rent rises (especially if they rise ahead of inflation) is an indication of a tightening rental market and of possible rental housing shortages. Most likely rent increases will be sustained by overcrowding especially if wages and salaries are static.

Migration as published by Statistics New Zealand. If there is a change in migration patterns this will quickly translate into housing demand effects. The most relevant indicator is the outward migration to Australia. If this outward migration declines below 20,000 housing shortages in the larger cities will begin to emerge and with this greater public debate around inward migration

New mortgage lending as published by the Reserve Bank. Home lending trends are a good indication of the confidence or lack of confidence of both lenders and borrowers

Construction sector employment as published by Statistics New Zealand. Construction sector employment can be a bellwether for the employment fortunes of other sectors especially within an economy such as New Zealand's which has relied on consumption led economic growth. Declines in construction sector employment will most likely be followed by further declines in other sectors on account of the economic multipliers between construction and other sectors such as manufacturing, transport and business services.

While these relationships are self apparent, their value as a portent for future housing market changes is sometimes overlooked. Like all markets, the housing market relies on some fairly obvious fundamentals which are occasionally forgotten by those who lack a historical perspective. By considering the trends in these fundamentals we may begin to form a better appreciation of whether or not our prevailing pessimism or our enduring optimism is justified. A focus on these key indicators may provide us with this appreciation.



RESIDENTIAL PROPERTY MARKET TRENDS

House prices have begun to fall following a period of stagnation dating back to mid 2007. The median house sale price across New Zealand dropped to \$330,000 in September 2008, a 6% decline from a year earlier. Some commentators are highlighting the impact which such declines are having on housing affordability but this affordability question should perhaps be seen in the wider historical context of declining affordability since at least 2001¹. For example at \$330,000 the median house price is still 5% higher (in nominal terms) than it was in September 2006. (see Figure 1 for details).

FIGURE 1: Median house sale price 2003-2008

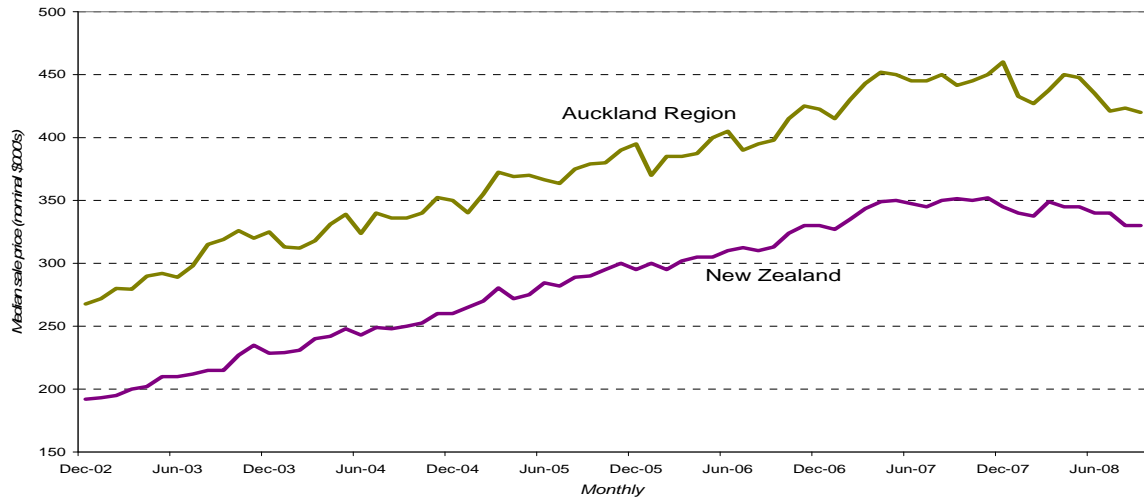
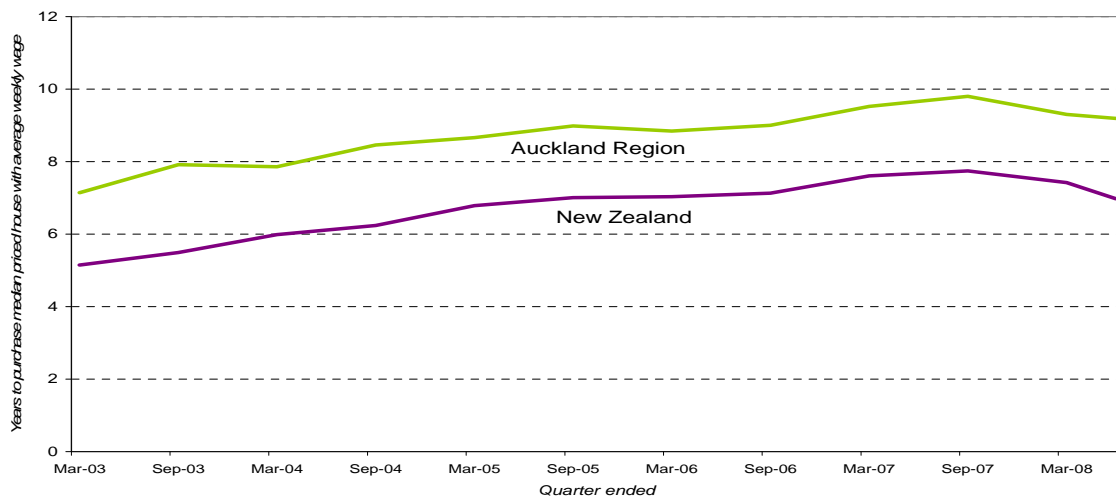


Figure 2 below provides this historical context in terms of the time taken to purchase a median priced house at the average (before tax) weekly income. This recent decline in house prices has reduced the time it would take to purchase a median priced house from the high of 7.7 years in September 2007 to seven years in June 2008. In early 2003 it took just over five years of an average weekly wage to purchase a median priced house. For Aucklanders it takes 9.2 years to purchase a median priced house on the average wage which is down from the high of 9.8 years in September 2007 but still two years longer than five years earlier

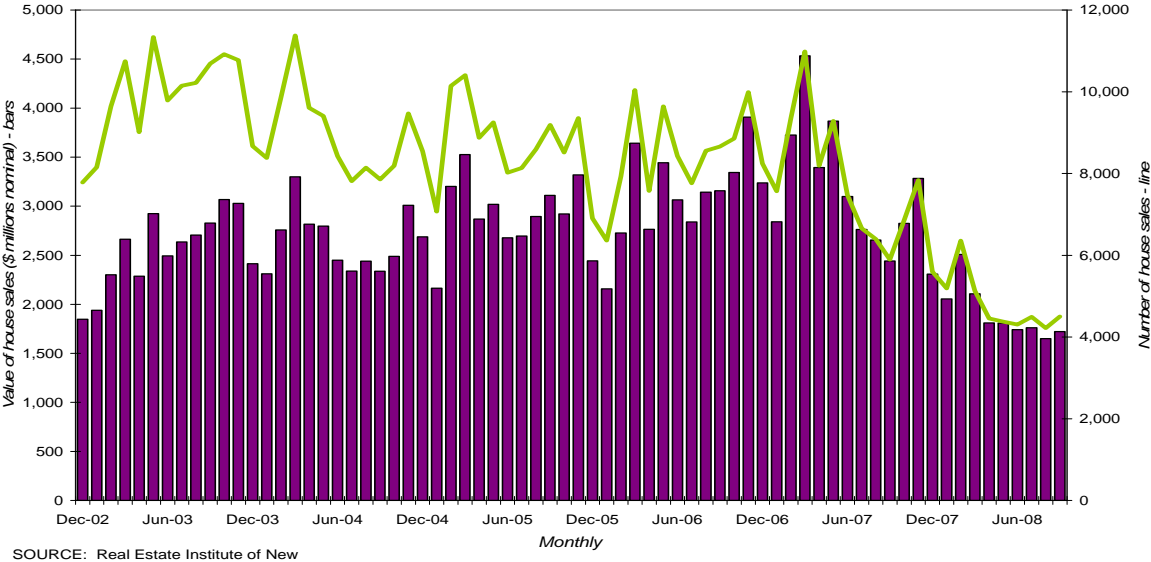
FIGURE 2: Years to purchase median price house 2003-2008



¹ See Hargreaves & Fong (2008) *Home Affordability Report – September 2008*, Massey University Real Estate Analysis Unit.

These house prices have declined on what must be seen as a plummeting real estate market in terms of sales activities. Figure 3 below provides an illustration of the rapid and recent decline in house sales by volume and value since highs of early 2007. A year on year comparison for the quarter ended 30th September 2008 shows a 43% decline in the volume of house sales – to 13,208 sales and a 53% (nominal) decline in the value of sales to \$5.1 billion.

FIGURE 3: House sales in New Zealand 2003-2008



Against this backdrop of a rapidly declining residential real estate market, the rental housing market is showing mixed results with some evidence of rents beginning to run ahead of overall inflation. The residential rents sub-group of the consumer price index reports an annual price inflation of just 3.1% (for the year to September 2008) against an overall CPI inflation rate of 5.1%. However median rent data suggests an average annual inflation of 7% for the year to August 2008 – see Figure 4 below. Less recent data (to March 2008) of average rents across New Zealand suggests an annual rent inflation of around 6% - see Figure 5 below. Most likely this variance between CPI based measures and market based measures such as median rents is because CPI measures are collected through household expenditure surveys which capture actual rents paid while median and average rent measures are based on recently agreed rents which are recorded by the Tenancy Bond Division of the Department of Building and Housing.

FIGURE 4: New Zealand median rents 2003-2008

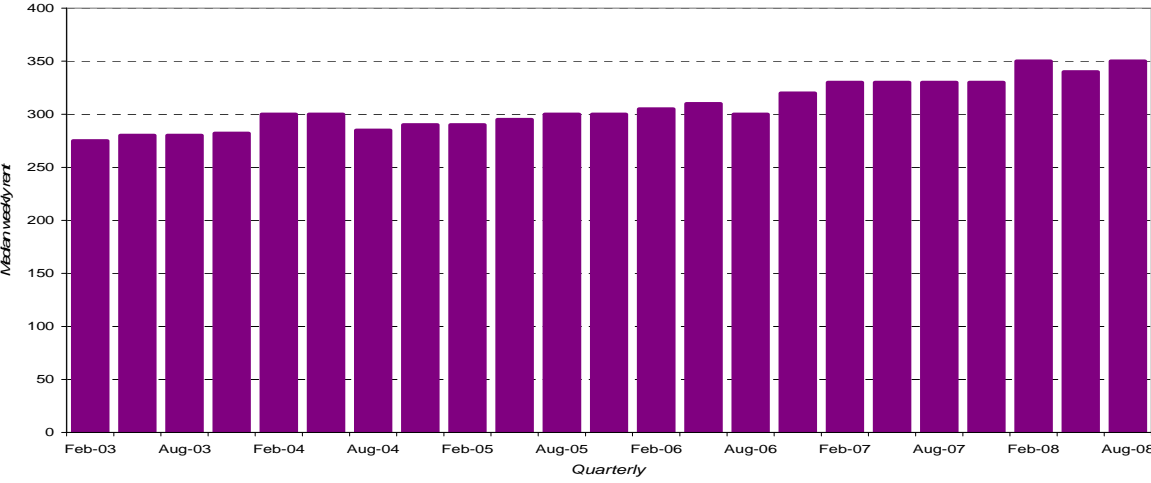
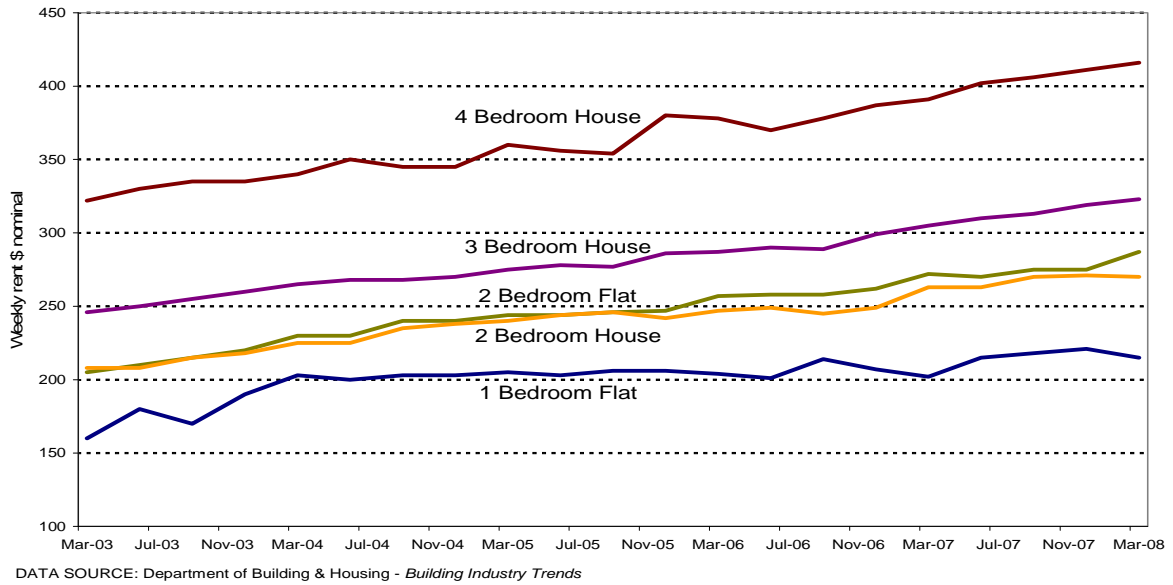


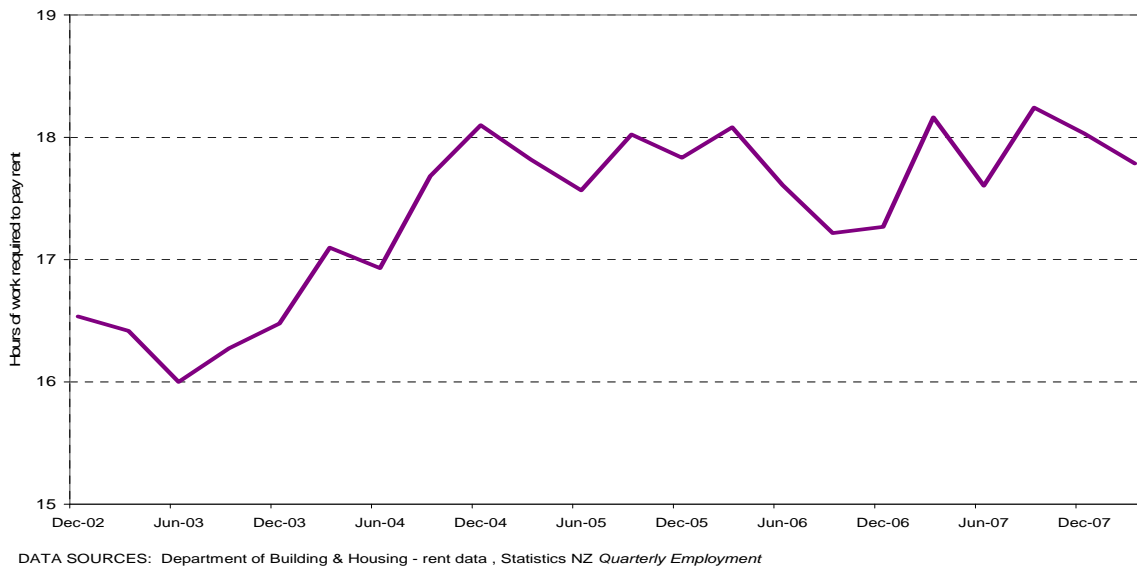
FIGURE 5: Mean rents in New Zealand 2003-2008



A useful indicator of rental affordability is a comparison of wages and rents over time. Such a comparison is provided in Figure 6 below. This comparison is based on a calculation of the number of hours a worker in the hospitality sector (who is paid the average wage for that sector) would have to work to pay the average rent for a two bedroom house. As shown on Figure 6 this work effort has been fairly stable since 2004 at around 17.5 hours. In other words rents are rising at about the same rate as wages for low paid workers.

FIGURE 6: Hours of work required to pay rent

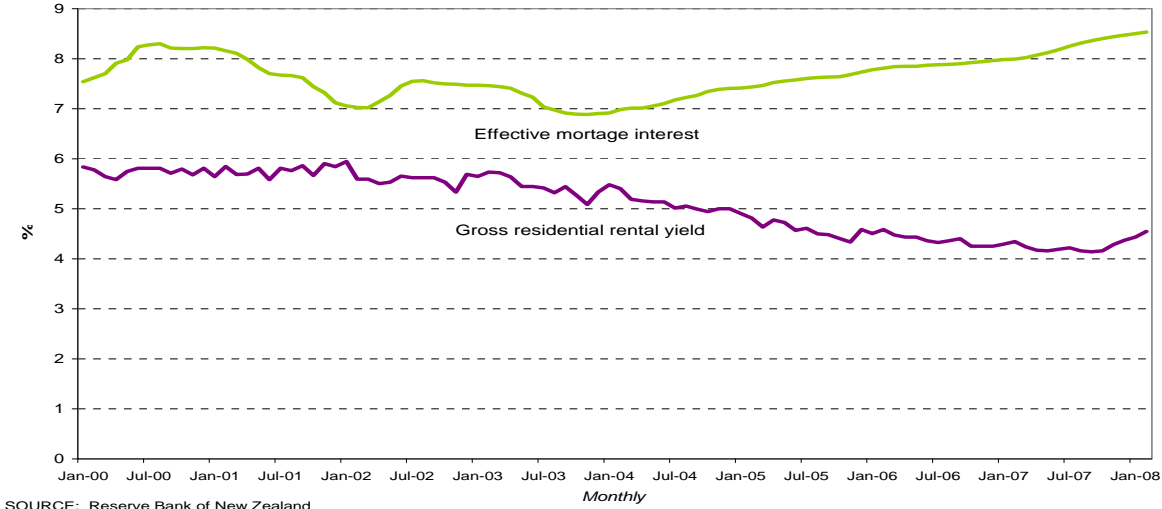
The hours of work required at average ordinary time wage in hospitality sector which will be required to pay the average rent for a two bedroom house



By any measure rents have not skyrocketed nor become less affordable over the recent past. They have however risen in nominal terms and these rises combined with the recent declines in house values have begun to close the yield gap which has existed between the rental yields gained by landlords from their rental income and the mortgage interest rates which these landlords face. This trend is illustrated below in Figure 7. While this gap has closed to 4% and is likely to close further with falling mortgage interest rates, it would appear that rents need to rise by more than 20% or house

values decline a further 20% for rental yields to rise to a level of 7-8%. At such yields further rental housing investment becomes viable.

FIGURE 7: Effective mortgage interest rates & gross residential rental yields



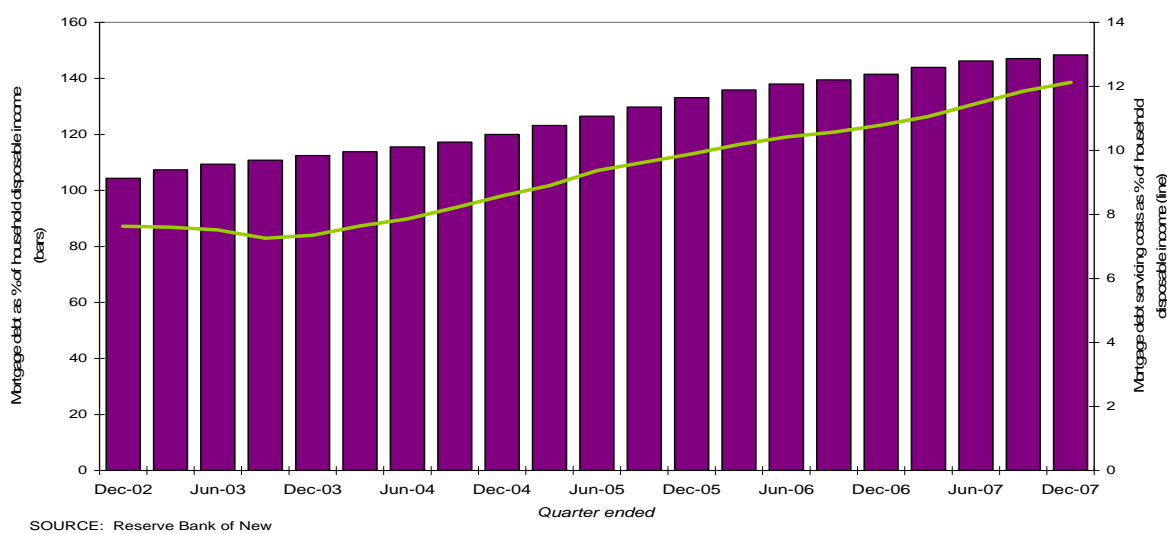
In summary it appears that the purchasing side of the residential property market has already declined significantly in volume terms while prices have fallen more modestly. Further price declines appear likely although these declines may occur over an extended period where inflation reduces the real value of housing while the nominal prices remain static. Recent price declines coupled with recent income growth for those in the work-force, has meant that housing has become relatively more affordable over the past year or so. This improvement in affordability only recovers the affordability position of two years ago however. Further improvements in affordability rely on continuing increases in household incomes which at this stage appear unlikely given uncertainties within the labour market.

On the renting side of the residential property market affordability has remained relatively constant for the past four years as wages and rents have risen at roughly the same rate. The low rental yields received by landlords alongside the prospect of static or falling asset values, suggests that it will be some time before there is further private sector investment in rental housing. The existing investment is likely to remain although there may be a gradual sell down of rental housing into home-ownership. The poor prospects for further investment into rental property with the likelihood of a significant and sustained decline in new house building suggests that shortages in the supply of rental housing may soon emerge and with this upward pressure on rents. Indeed rents will be an important early indicator of change within housing markets over the next one to two years.

HOUSING AND FINANCIAL MARKETS

The housing market's immediate future rests heavily on financial markets and in particular the availability and cost of credit. Over the past ten years New Zealanders have followed the behaviours of many other western countries and borrowed heavily to invest in housing. This borrowing has ratcheted up the indebtedness of households and the proportion of their incomes which they have to spend on servicing this debt. For example housing debt in total doubled over the five years to March 2008 to \$160 billion which on average is now nearly 150% of a household's annual disposable income. This debt burden is typically costing a New Zealand household one eighth of its disposable income to service the mortgage – see Figure 8 below for details.

FIGURE 8: Household indebtedness in New Zealand 2002-2007



Behind this growth in housing related debt there has been quite a remarkable change in the shape and size of household wealth. These changes are summarised below in Table 1

TABLE 1: Summary of New Zealand households' asset positions 2002-2007.

\$ billion (nominal)

Year ending December	2002	2003	2004	2005	2006	2007
Household net financial wealth	42	39	36	30	36	30
Housing value	282	370	429	506	559	614
Net equity in housing	204	279	324	384	420	458
Household net wealth	246	318	360	414	456	488
Housing equity as % of net wealth	83%	88%	90%	93%	92%	94%
Housing debt as % of housing value	28%	25%	24%	24%	25%	25%
House price inflation from previous year		19%	14%	13%	12%	5%
Value of housing equity increase due to inflation		39	38	44	46	19
Value of housing equity increase due to saving		36	7	16	-10	19

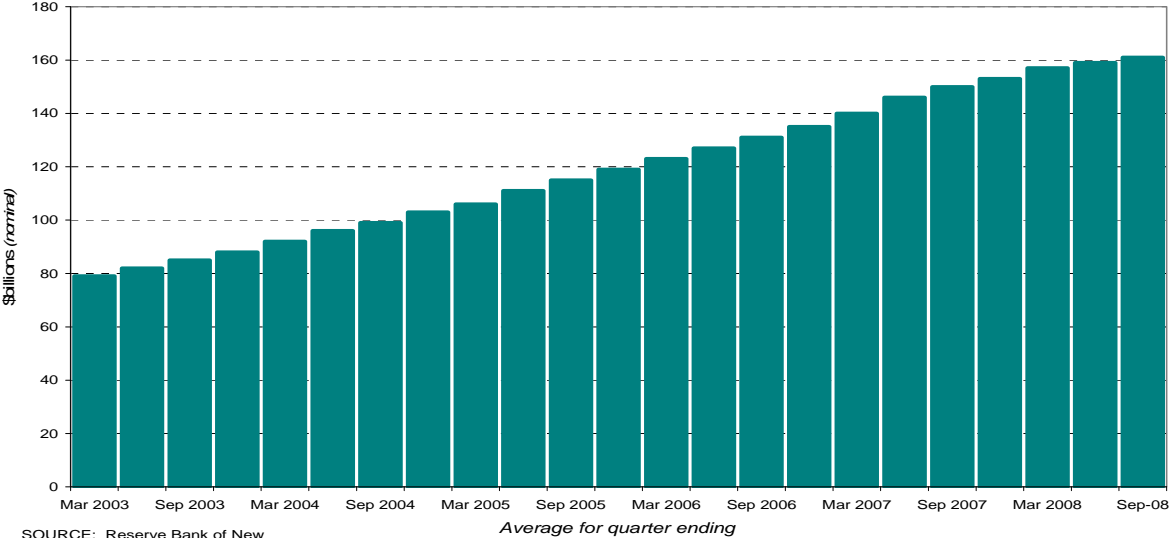
DATA SOURCES: Reserve Bank of New Zealand and Real Estate Institute of New Zealand

In 2002 the total value of household assets was \$324 billion of which 87% or \$282 billion was in housing while \$42 billion was the net value of household's assets. By the end of 2007 New Zealand households had housing assets totalling \$614 billion and net financial assets of \$30 billion. In other words housing now comprises over 95% of New Zealand household's wealth. Behind this huge housing nest egg is a mountain of debt which looks reasonably respectable on account of rising house prices. For example in 2002 New Zealanders owed a total of \$78 billion in housing mortgages or a

modest 28% of the value of their homes. By the end of 2007 this debt had risen to \$156 billion but because of house price inflation this debt was just 25% of the value of their homes.

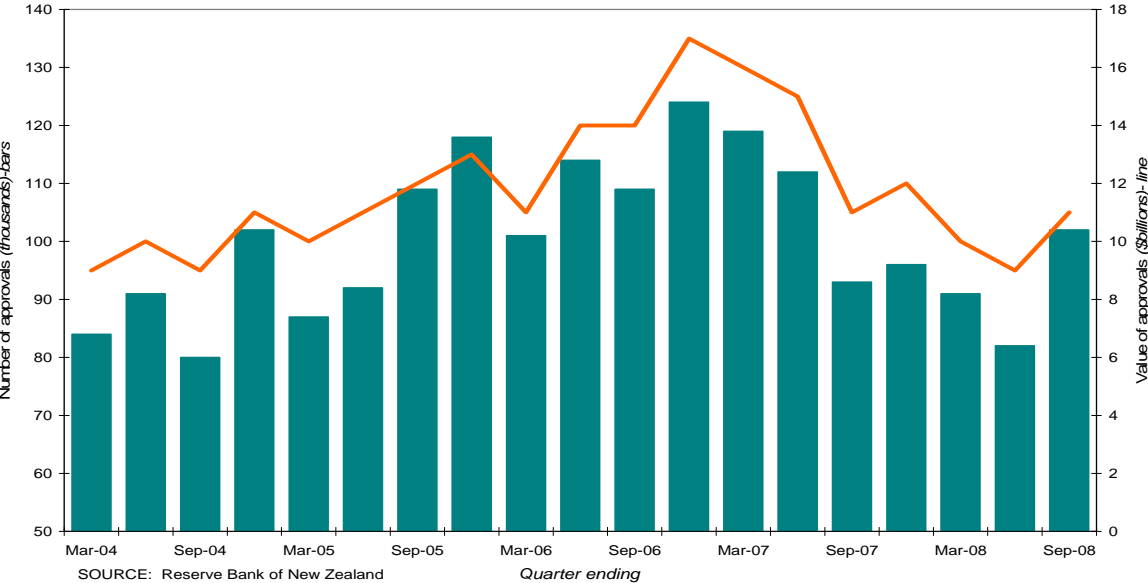
Such growth in borrowing and indebtedness could not continue indefinitely and while we are beginning to see a tapering off in the overall growth in housing related debt (see Figure 9) there are mixed signals around other trends in the housing finance market.

FIGURE 9: Housing related debt with registered banks in New Zealand 2003-2008



Data on mortgage lending shows some recent increase in lending activity after a period of decline. Figure 10 below illustrates Reserve Bank of New Zealand data on housing loan approvals for the period March 2004 to September 2008. There has been a recent recovery both in the number of loans and the value of loans following a period of decline between late 2006 and mid 2008. For the September 2008 quarter 102,267 home loans were approved to the value of \$11.3 billion.

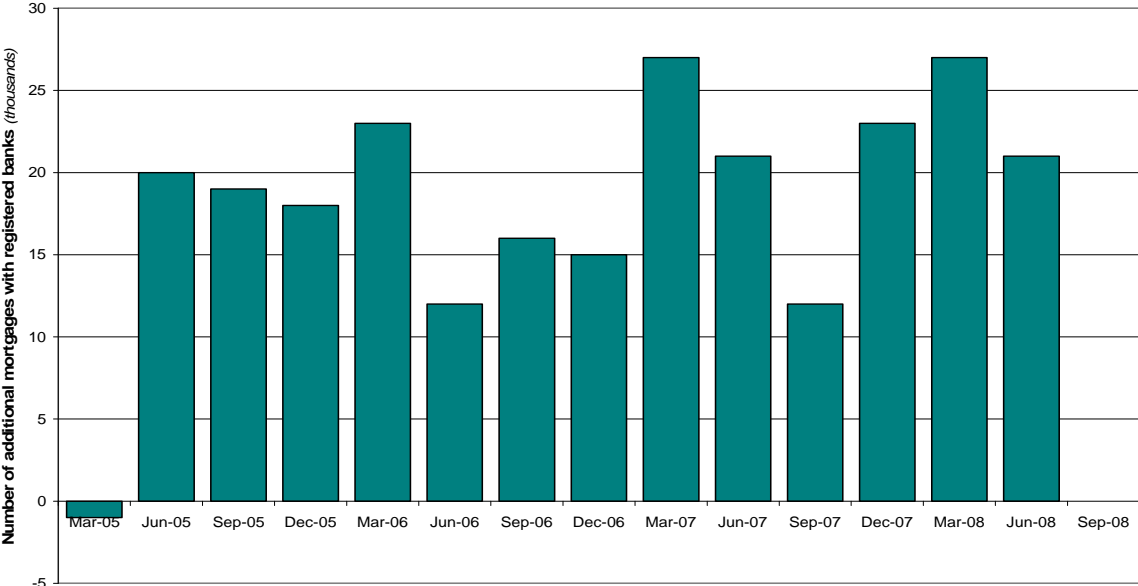
FIGURE 10: Home loan approvals in New Zealand 2004-2008



These results do not however correspond closely with data also published by the Reserve Bank of New Zealand on changes in the total volume of mortgages held by New Zealand's registered banks. These changes are shown in Figure 11 below. Figure 11 indicates that the number of residential mortgages has risen by an average of around 20,000 mortgages per quarter since mid 2005. This

volume of increase is around three times the rate in growth in the housing stock suggesting at least two things. Firstly, that many houses have several mortgages on them² and secondly that more debt (eg. consumer and business debt) is being loaded into residential mortgages and hence reported as being housing related debt. Such arrangements suggest that this data series has not been a useful measure of housing market trends in the past which may of course mean that this data is of limited value for future analysis as well. If, as seems likely, the value of houses decline and household incomes remain static, the ability of households to shift non-housing related debt into their residential mortgages will diminish. At this point we may begin to see a closer relationship between changes in the numbers of residential mortgages held by banks and changes in the housing stock.

FIGURE 11: Changes in the number of residential mortgages held by New Zealand banks 2005-08



SOURCE: Reserve Bank of New Zealand

Quarter ended

² RBNZ records (*SSR Part E Residential claims origination & loan analysis*) fixed and floating mortgages separately. It seems likely that many housing loans have both a fixed and floating mortgages in which case one loan may be recorded as two or three mortgages in this series

CURRENT BUILDING INDUSTRY TRENDS

The unsettling news begins with recent declines in the number of consents issued for new dwellings. For the year to 30th September 2008, 20,957 consents were issued for new dwellings down 20% on the previous year while the decline in the Auckland region over this period was nearly 22%. (see Figures 12 and 13 below)

FIGURE 12: Consents for new dwellings in New Zealand 2003-2008

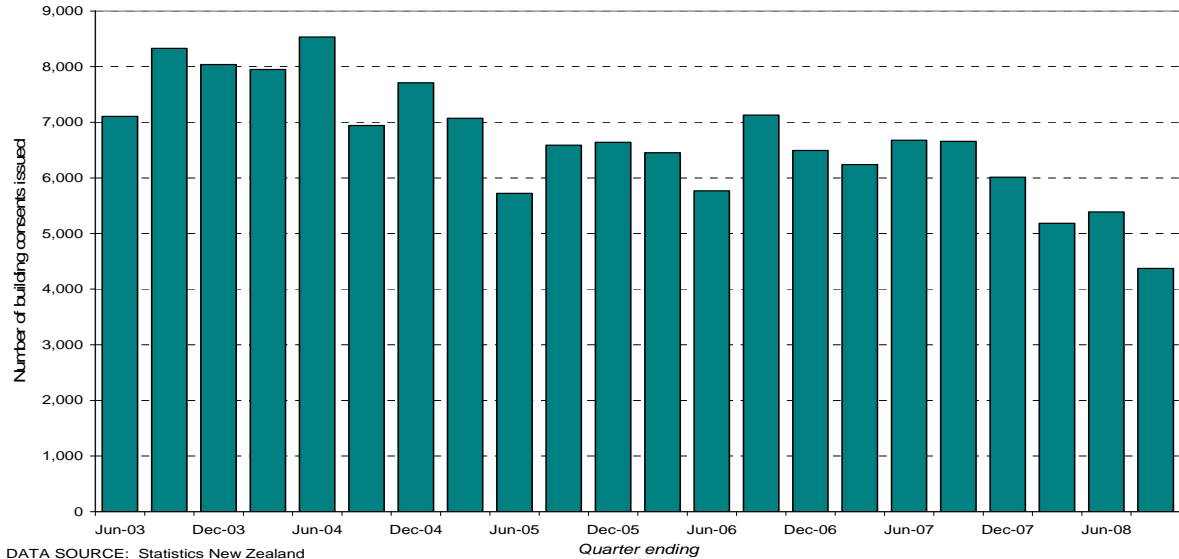
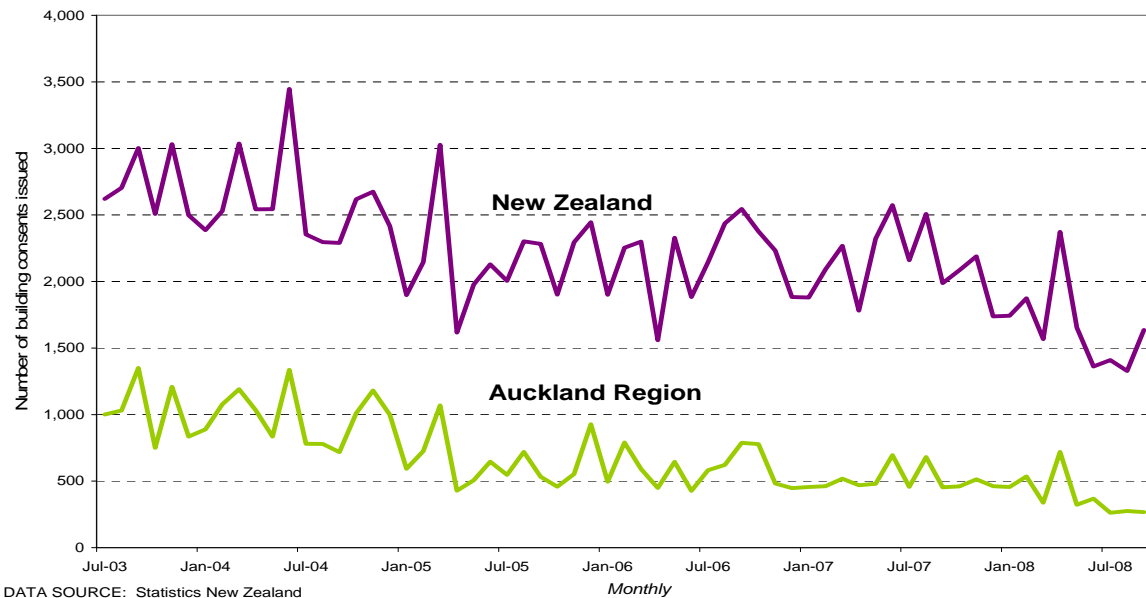
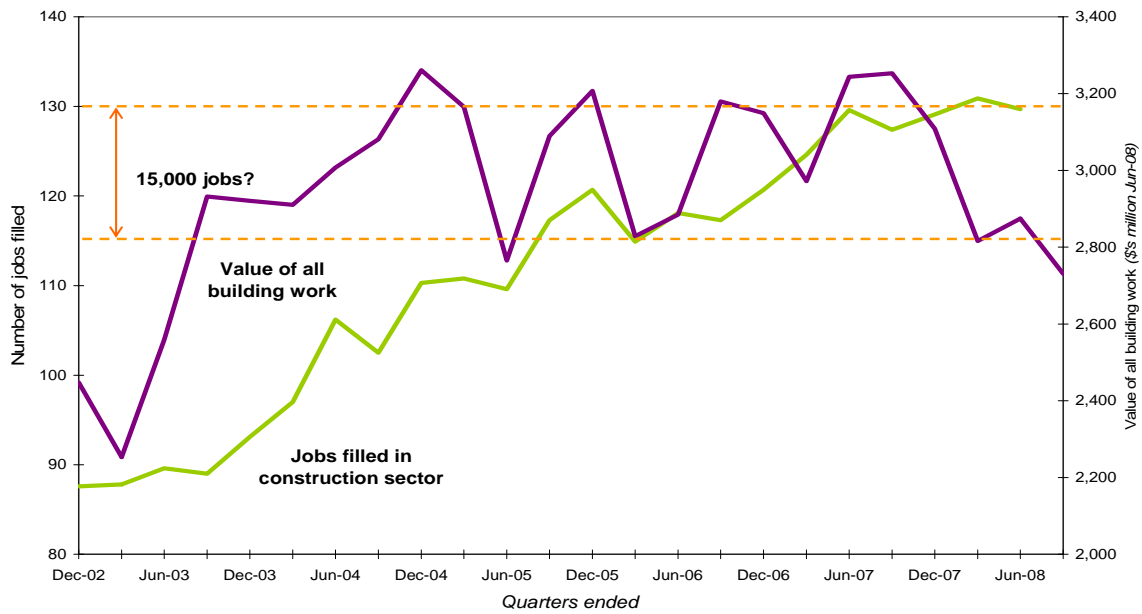


FIGURE 13: Consents for new dwellings – New Zealand v Auckland region 2003-2008



This decline in new house building is reflected in a recent decline in the value of construction work under way. During the September 2008 quarter the value of consents for all new building work has been around \$2.7 billion which was 16% lower in real terms than for the same period a year earlier. (see Figure 14 below)

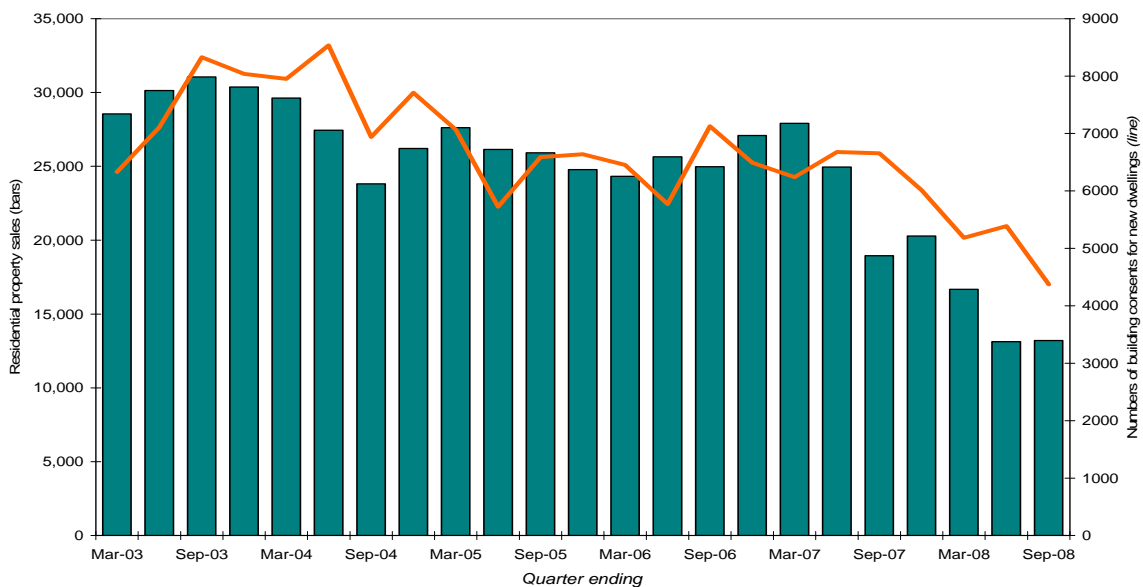
FIGURE 14: Construction jobs and the value of building work 2002-2008



Presently there are around 130,000 jobs within the construction sector and while the recent downturn has not seen layoffs yet it is possible that around 15,000 jobs are directly under threat if this slowdown continues much longer. Perhaps as many jobs again are under threat in supporting sectors such as transport, manufacturing and wholesale trade if these job losses within the construction sector occur.

Traditionally the numbers of house sales follows a similar pattern of movement as new house builds although this relationship has broken down somewhat during 2008 as house sales have plummeted while consent figures remain relatively stable. House sales for the June 2008 quarter at a mere 13,000 are nearly half what they were a year previously and it seems likely that the building consent figures for new homes will suffer a similar decline unless there is a turnaround in the fortunes of the real estate market by the end of 2008. (see Figure 15 below)

FIGURE 15: Residential property sales and building consents 2003-2008



DATA SOURCE: Statistics New Zealand & Real Estate Institute of New Zealand

🏠 SUSTAINABLE CONSTRUCTION LEVELS

A key social challenge for the building industry and the housing market in general is to provide sufficient housing stock to keep all New Zealanders adequately housed. Defining this adequacy is never easy on account of a number of definitional problems around acceptable levels of occupancy (or overcrowding), of quality and of security of tenure. Clearly houses which are excessively overcrowded or leaky and cold or temporary are not adequate but the question of how standards for such things are set and agreed to, is a difficult policy issue to resolve.

This difficulty notwithstanding, it is still possible to leave aside contentious questions of adequacy by setting a baseline of provision and measuring relative change against this baseline. In other words under what circumstances will the level of housing provision be improving or deteriorating?

This is the approach taken here and is one based on current levels of provision particularly in terms of average occupancy rates or average household size. Within this analysis some attention is paid to the quite wide variations in occupancy rates across local housing markets and what changing construction levels may mean for adequacy within these local markets.

Any assessment of construction levels for their adequacy to meet housing demand is conditional on a number of underlying assumptions. Principal amongst these assumptions are those concerning the rate at which houses are demolished to make way for new houses and extent to which houses in areas of low demand are simply abandoned or turned over to non-residential uses. There are no reliable records of this wastage or stock loss although it is expected to be relatively high in built up mature urban areas and relatively low in suburbs where greenfields development is more common.

A further complication is the construction of second homes for households who only occupy them occasionally on weekends and holidays. For example between 2003 and 2008 an average of 472 consents for new dwellings were issued each year in Thames-Coromandel District yet the local population of around 27,000 people is only growing by about 100 people annually.

A third complicating factor in determining the adequacy of construction levels to meet housing demand is the volatility of population growth in New Zealand. For example over the past ten years (1998-2007) New Zealand's annual population growth has varied between 20,000 (1999) and 64,000 (2002), a variation which is the housing demand equivalent of 14,000 dwellings. Underlying this volatility is a variability in net migration (see Figure 16 below) which itself is influenced by variability in both inward and outward migration (see Figure 17). Beside this volatility is a more consistent trend within the natural increase in New Zealand's population as shown on Figure 18. This trend is for a relatively stable death rate with an increasing birth rate which has meant a steady climb in the natural increase in New Zealand's population from 26,000 in 2002 to 35,500 in 2007. This trend will not continue indefinitely with New Zealand's aging population however.

FIGURE 16: New Zealand's population change 1997-2008

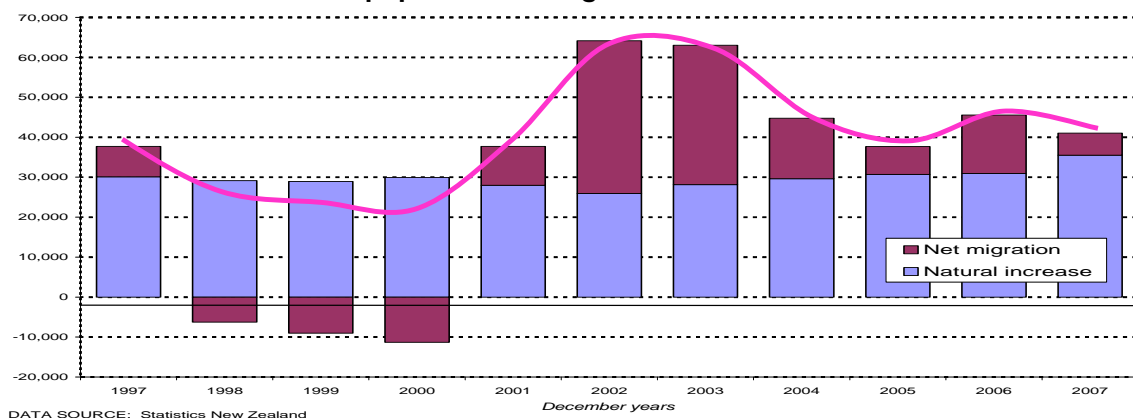


FIGURE 17: New Zealand's migration trends 1997-2007

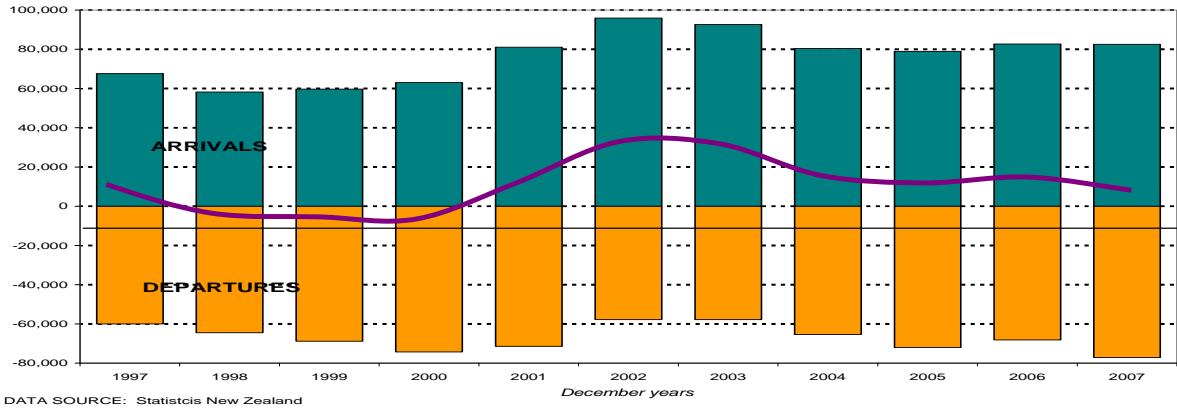
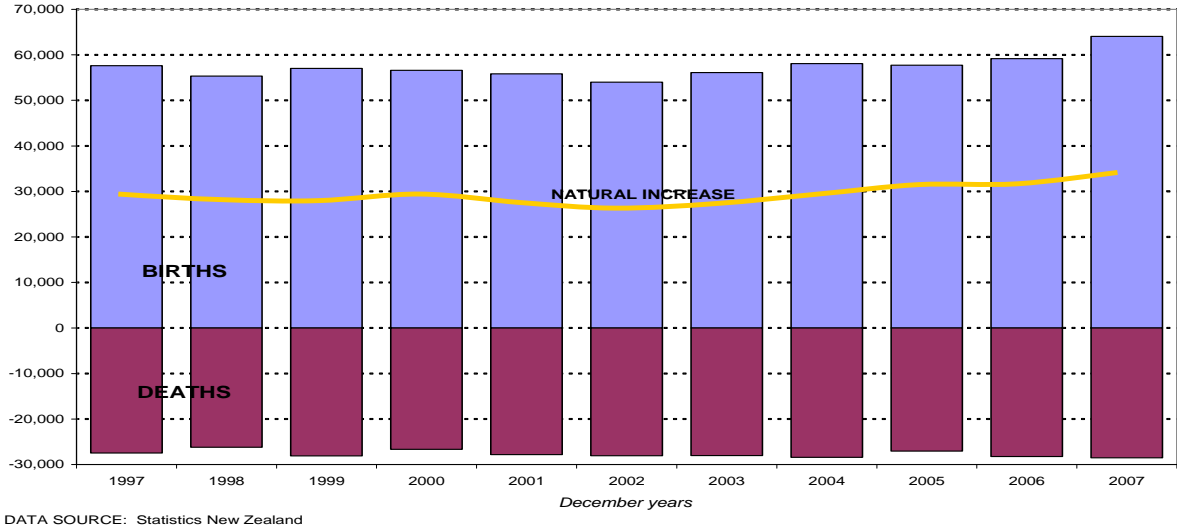


FIGURE 18: New Zealand births and deaths 1997-2007



Of some concern to efforts at predicting housing demand is the large uncertainty around outward migration to Australia. This migration is largely independent of any policy intervention but is quite dependent on the relative fortunes of Australia and New Zealand and especially the fortunes of the labour market and the housing market. The trend of significant and sustained net outward migration to Australia might quickly be reversed if unemployment in Australia begins to rise, or if the wage gap narrows or if the housing shortage which exists in some Australian cities³ is not addressed.

The housing demand analysis provided below is based on the assumption that the present policy settings remain (mainly those relating to inward migration) and that the economic relativities between Australia and New Zealand remain the same meaning that outward migration to Australia continues at around 20,000 to 30,000 people annually. This feature of New Zealand's population dynamic is the most uncertain within this analysis however.

Clearly then migration patterns are the key contributing factor to the adequacy or otherwise of various levels of new house building. However, if we are to rely on recent levels of population growth of 40,000 to 50,000 people per annum as an indicator for an adequate level of house construction, we need to also rely on outward migration of 60,000 to 70,000 people annually being matched by inward

³ See for example the report in Sydney's Daily Telegraph newspaper of 12th June 2008 reporting a national housing shortage of 30,000 houses. Available at www.news.com.au/dailytelegraph/story/0,22049,23854083-5015795,00.html

migration of around 80,000 people each year. While inward migration may be subject to policy interventions, outward migration will generally be determined by the economic relativities between New Zealand and other countries especially Australia. Given the changeability of these economic relativities outward migration volumes may also change quickly which suggests two things for housing markets. Firstly, outward migration volumes are likely to be the most important housing market indicator over the short to medium term. Secondly, sharp changes in outward migration are likely to translate quickly into housing market shocks especially if outward migration declines at the same time that building activity is waning. This prospect is considered later in this paper

A number of approaches to forecasting housing demand are available most of which are based on demographic projections and some observance of migration patterns. Two approaches are used in this paper – one using Statistics New Zealand's household projections to consider a long-term view and the other using recent trends on a more localised basis as a way for considering shorter term prospects.

The current Statistics New Zealand household projections are based on the 2001 census and so are a little less reliable than the current population projections which are based on the 2006 census. Recent population trends since 2006 suggest that New Zealand's population is on the "medium" scenario pathway of Statistics New Zealand. By contrast 2001 based household projections indicate a significant over forecast of likely household formation as indicated on the following table.

TABLE 2: Statistics New Zealand's Household Forecasts 2001-2021

	LOW SCENARIO	MEDIUM SCENARIO	HIGH SCENARIO
2001 = base	1,440,600	1,440,600	1,440,600
2006 forecast	1,521,500	1,552,600	1,583,000
2021 forecast	1,976,200	1,842,200	1,717,100
Additional dwellings required 2006-2021	276,700	401,600	536,100
Additional dwellings required per year	17,294	25,100	33,506
Actual households – 2006 census		1,454,175	
Actual households – 2001 census		1,344,267	
Additional households per year 2001-06		21,982	

Data source: <http://www.stats.govt.nz/store/2006/07/subnational-family-household-projections-01%28base%29-21-update.htm>

While the base for the 2001 household forecasts is a little puzzling given the actual number of households from the 2001 census, these forecasts do suggest that New Zealand's population growth path between 2001 and 2006 followed a middle course between Statistics New Zealand's low and medium scenarios.

Household forecasts based on Statistics New Zealand's 2006 base population forecasts and stable average household sizes are provided below in Table 3. These forecasts suggest that between 18,600 and 32,900 households will be formed each year for the period 2006 to 2011. As discussed above population trends to date (June 2008) suggest that New Zealand is on "medium" growth path which suggest subsequently that around 25,000 new dwellings are required to added to the national housing stock if the present level of housing provision is to be maintained.

TABLE 3: Household forecasts to 2011 - (based on Statistics New Zealand's 2006 Population Forecasts)

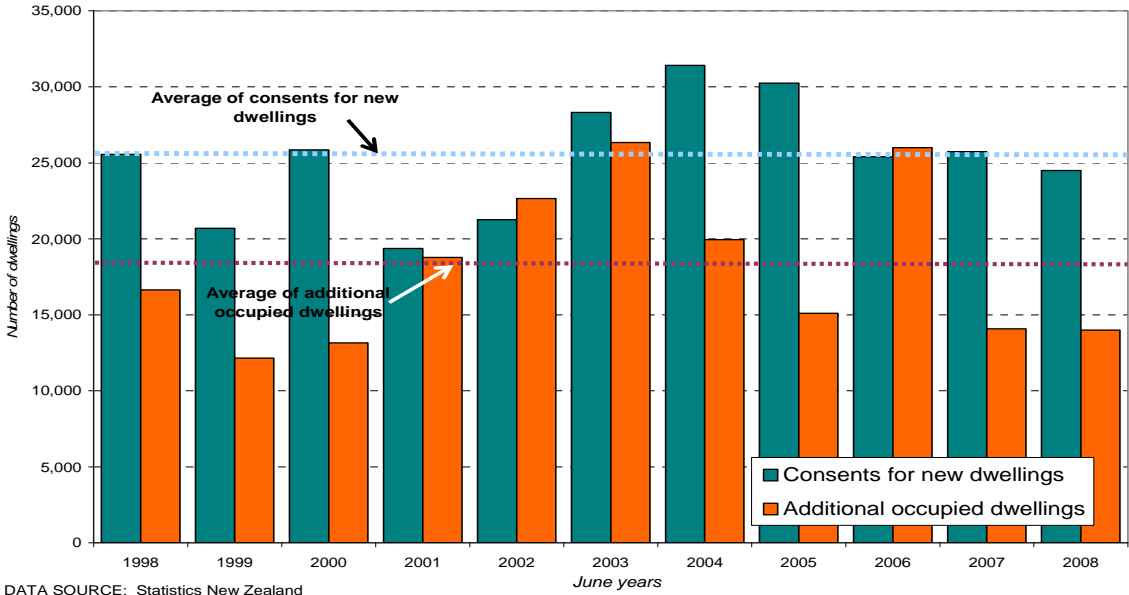
	Actual Households 2006	Low scenario	Medium scenario	High scenario
Northland Region	54,453	56,885	58,168	59,489
Auckland Region	433,647	483,310	493,626	503,843
Waikato Region	138,336	145,380	148,922	152,428
Bay of Plenty Region	94,773	100,525	103,066	105,570
Gisborne Region	15,486	15,730	16,182	16,600
Hawke's Bay Region	54,618	56,029	57,248	58,431
Taranaki Region	39,897	40,424	41,267	42,148
Manawatu-Wanganui Region	84,015	85,782	87,784	89,786
Wellington Region	166,974	175,693	179,561	183,392
Tasman Region	16,800	17,619	18,071	18,522
Nelson Region	16,920	17,556	18,029	18,542
Marlborough Region	16,434	16,952	17,416	17,918
West Coast Region	12,459	12,487	12,766	13,044
Canterbury Region	199,929	212,062	216,851	221,602
Otago Region	73,872	76,007	78,179	80,352
Southland Region	35,319	34,902	35,912	36,962
Total New Zealand	1,454,175	1,547,342	1,583,049	1,618,628
Additional households per year		18,633	25,775	32,891

The adequacy or otherwise of New Zealand's house building efforts depends not just on how many houses are built but where they are built and what they are built for. Data from Statistics New Zealand suggests that much of recent house building activity has not necessarily been undertaken to provide additional households with housing but to provide other households with a second house or to replace the housing stock in areas where population growth is not strong.

Figure 18 below illustrates the recent history of building consent approvals and housing stock increase for last decade. During this period there has been an annual average of 25,300 consents for new dwellings issued but an annual average of 18,100 dwellings added to the housing stock. The difference can be explained by a number of events including:

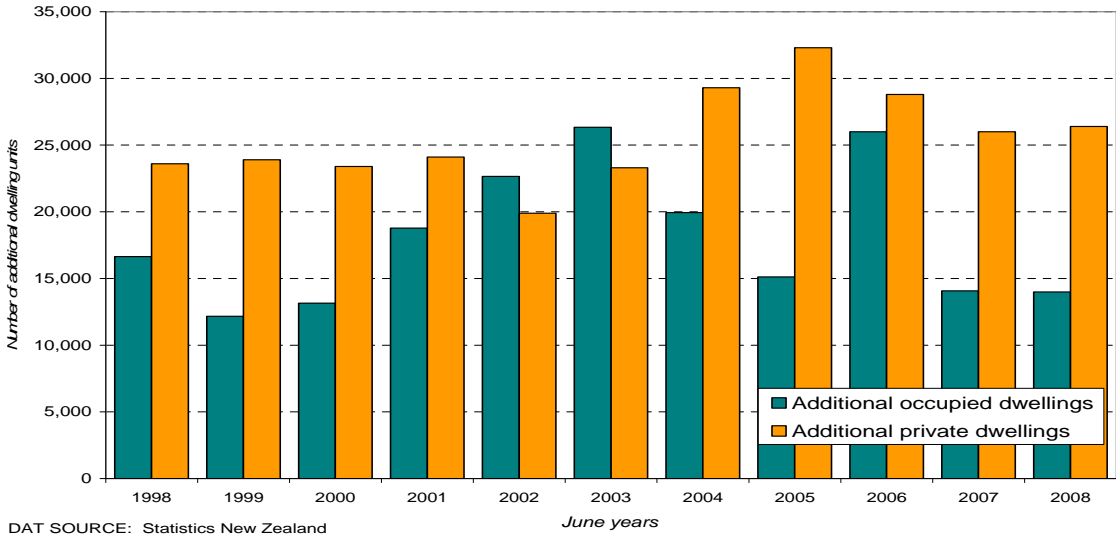
- Dwellings being demolished to make way for new development including residential development.
- Dwellings being abandoned because they are beyond repair or simply in areas with low housing demand.
- Consents not being taken up and developed as dwellings.
- Dwellings being used as a second or secondary house for a household such as with baches and beach houses.

FIGURE 18: New dwelling consents & housing stock growth 1998-2008



Statistics New Zealand data suggests that it is the last of these outcomes which best explains this anomaly. Figure 19 below compares the growth in total dwellings and occupied dwellings for the period 1998 to 2008. Once again the annual average increase in the number of occupied dwellings was 18,100 but the annual average increase in total dwellings was 25,500, slightly more than the average number of building consents issued for the same period. Of the additional stock added for the decade to June 2008 only 70% was for occupied dwellings suggesting the remainder, 75,000 dwellings, have been built as second homes.

FIGURE 19: Additions to New Zealand’s housing stock 1998-2008



Most likely it will be building for this secondary housing market which will decline first in any recession and so it seems that building consent levels in the order of 18,000 to 19,000 dwelling are sufficient to sustain the present adequacy of housing provision under current population trends.

A further complication however is what appears to be the poor distribution of housing building activity geographically. Some cities and districts appear to be over supplied with new housing while a few

cities in Auckland region are trending toward a serious under-supply of housing. This analysis is reported in Table 4 below

TABLE 4: Estimates of new housing required for selected cities & districts

City or District	Average Annual Population Increase 2003-2008	Average Annual New Dwellings 2003-2008	Consents for New Dwellings YE Sept 2008	New dwellings required for forecast population growth
Rodney District	2,468	950	775	804
North Shore City	3,944	1,127	629	1,120
Waitakere City	3,512	891	611	1,039
Auckland City	6,700	2,827	1,519	1,966
Manukau City	8,848	1,791	897	2,117
Franklin District	1,372	644	442	442
Thames- Coromandel District	128	472	332	83
Hamilton City	2,440	1,091	677	788
Western Bay of Plenty District	700	373	287	256
Tauranga City	2,368	1,190	843	867
Rotorua District	124	267	190	35
Hastings District	552	378	315	141
Napier City	212	347	270	39
Kapiti Coast	648	383	248	212
Wellington City	3,012	927	1,184	1,025
Tasman District	548	332	238	188
Nelson City	248	320	318	80
Waimakariri District	1,144	542	466	442
Christchurch City	4,600	2,231	1,788	1,479
Selwyn District	1,304	673	548	505
Queenstown Lakes District	1,210	654	461	486
Total for selected areas	46,082	18,410	13,038	14,115
New Zealand	53,340	27,207	20,957	15,263
% of New Zealand	86%	68%	62%	92%

Estimates for new dwellings required are based on the current growth path each city or district appears to be on (ie. Statistics NZ low-medium-high scenario) and the 2006 average household size for each city or district.

A number of interesting points come out of this analysis

- The Auckland region's cities (North Shore, Waitakere Auckland and Manukau) will experience a growing housing shortage if current building rates (for the year ended September 2008) are maintained. This deficit is around 2,500 houses per year with North Shore City have a deficit of 500 houses annually, Waitakere City a deficit of 400 houses, Auckland City (400 houses) and Manukau City a deficit of over 1,200 houses annually on present trends.
- Some areas such as Rodney District, the western Bay of Plenty including Tauranga City and Wellington City are maintaining their housing position under present population growth and house building trends but will see a quick deterioration in this position if there are further declines in building levels.

- The selected cities and districts account for almost all (92%) of demand for new dwellings across New Zealand but just over 60% of the new building activity. Clearly the deficits in the four Auckland cities largely account for this anomaly.

This analysis suggests that building levels of 15,000 to 16,000 dwellings annually in areas of high housing demand will support new household formation under recent population growth patterns. In addition to these new dwellings some allowance needs to be made for new construction which replaces existing housing either because of decay, conversions or demolition for new development. An allowance of 1,000 to 2,000 dwellings annually would probably be a minimum estimate for this activity. Overall a minimum level of construction activity required to support housing demand growth would be around 17,000 to 18,000 new dwellings annually clearly with an emphasis on areas of high population growth.