



## Introducing the REGIONAL BAROMETER reports

### The Regional Barometer reports will:

- Provide advance warnings of upturns and downturns in the number of consents for new dwellings, the number of existing dwelling sales and existing house prices for each region covered. And assess the likely magnitudes of upturns and downturns.
- Assess whether the region will significantly outperform or underperform the national experience in the three areas listed above in the year ahead.
- Assess regional consumer spending prospects and provide a range of background information particularly relevant to the performance of residential building.
- Assess which city or cities and major districts within the region are likely to significantly outperform or underperform the regional experience in the year ahead.

### The regions covered

Quarterly reports will be produced on each of the following regions:

Northland, Auckland, Waikato, Bay of Plenty, Hawke's Bay/Gisborne, Taranaki, Manawatu-Wanganui, Wellington, Top of the South (i.e. Nelson, Tasman and Marlborough, but also including the West Coast), Canterbury, Otago and Southland.

### Contents of the reports

An example of the contents page is shown below, with each regional report having the same content. This introductory report looks at what drives regional upturns and downturns, and why the performance of existing housing markets and residential building can vary so much between regions. This introductory report showcases the analysis contained in the **Regional Barometer** reports to help you assess whether the reports will be useful to you in making business and/or investment decisions.

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### Subscription prices

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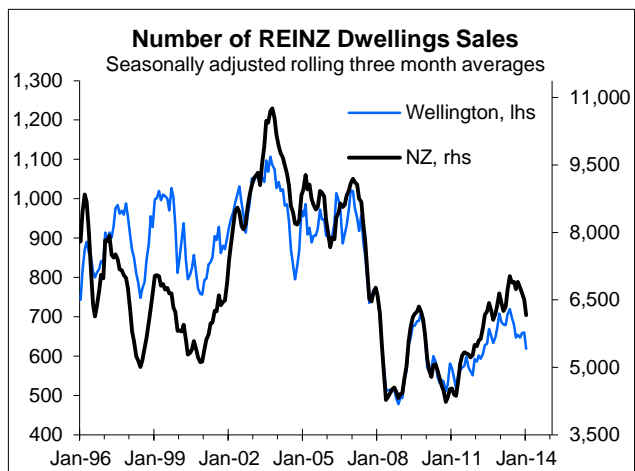
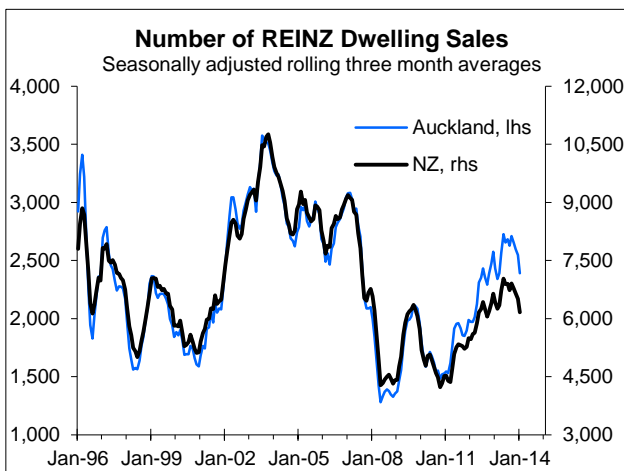


## What drives regional existing dwelling sales and prices?

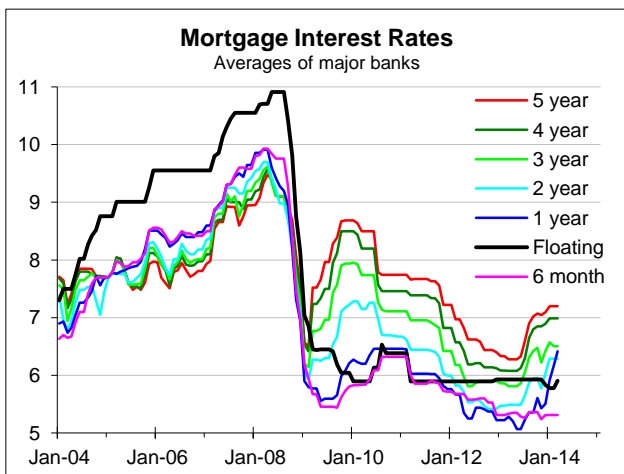
- **National and regional factors determine the level of demand for existing housing**

Comparing what has happened in the Auckland and Wellington regions is instructive in considering what drives demand for existing dwellings. [Note: dwellings refer to houses, apartments, flats and units.] The number of dwelling sales reported by REINZ monthly largely reflects demand (i.e. if demand improves the number of sales increases and if demand weakens the number of sales fall). When we observe the behaviour of regional versus national dwelling sales, as is done in the left chart for Auckland and the right chart for Wellington, it becomes evident that in the vast majority of circumstances the timings of upturns and downturns largely coincided, but at times regional performances are stronger or weaker than the national experience.

The coincidence of regional and national upturns and downturns points to national factors being the key cyclical drivers. But the periods of outperformance or underperformance point to regional factors also being important at times. For example, Auckland and Wellington both experienced upturns in the numbers of dwelling sales between 2011 and 2013 and as at March 2014 were showing signs of downturns having started, but while Auckland significantly outperformed the national average experience Wellington significantly underperformed.



The **Housing Prospects** reports show that interest rates are the key driver of upturns and downturns in national dwelling sales, while net external migration is the second most important driver (i.e. the number of immigrants arriving from overseas less the number of NZ residents emigrating overseas). At times other factors are important (e.g. the property tax changes in 2010, the financial crisis and bank lending restrictions). At different times different mixes of interest rates and net external migration exist. Occasionally low interest rates coincide with high net migration and result in a mega-boom (e.g. 2002 to 2004). Occasionally interest rate increases coincide with negative net external migration and result in a low number of dwelling sales (e.g. 2001-02). Interest rates are more powerful in driving upturns and downturns in the number of dwelling sales than net migration because interest rates often change significantly while they impact on the majority of would-be buyers.



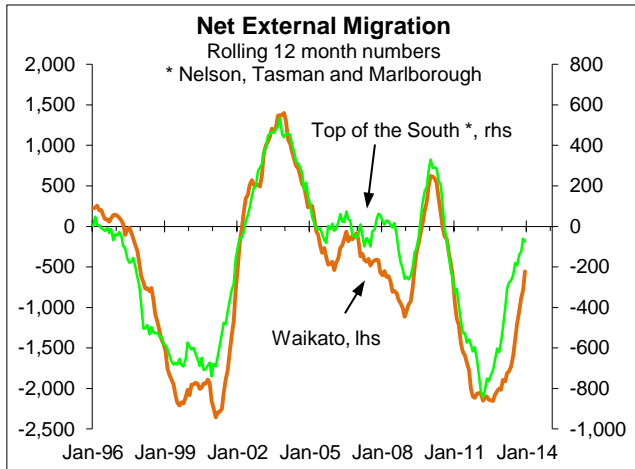
The fall in the various fixed mortgage interest rates shown in the adjacent chart between mid-2010 and early-2013 was the main driver of the upturns in the numbers of dwelling sales in Auckland, Wellington and nationally between 2011 and 2013. It takes 4-6 months for changes in interest rates to impact on the number of dwelling sales, which means we can predict what will happen to the number of dwelling sales over the next 4-6 months with a good level of accuracy based on what has happened to mortgage interest rates over the last 4-6 month. It takes a similar period for changes in net external migration to impact on the number of dwelling sales.

The recent falls in the numbers of dwelling sales shown in the charts above are mainly because of the introduction of the bank lending restrictions that we argued would have a reasonably significant initial

negative impact before borrowers started to find ways around the restrictions and should be considered akin to temporary interest rate increases. The falls will also partly reflect the negative impact of upside in most fixed mortgage interest rates in 2013. Despite net external migration having increased, the numbers of dwelling sales



have fallen. This is consistent with the historical experience that changes in interest rates and Reserve Bank actions that impact at the national and regional levels have the most powerful impact.



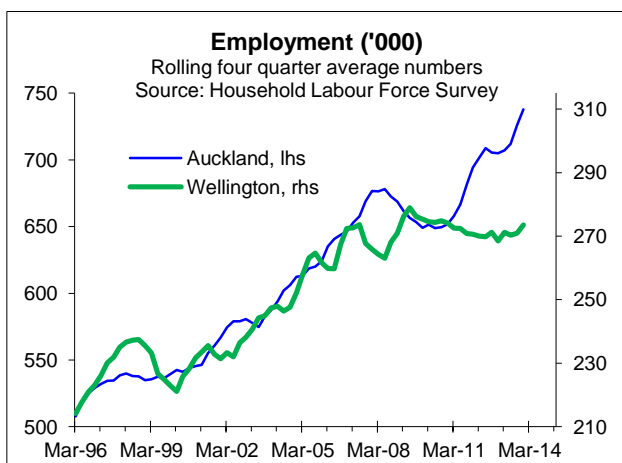
The coincidence of regional and national upturns and downturns in dwelling sales isn't just because interest rates and Reserve Bank actions impact similarly all over the country. It is also because most regions experience upturns and downturns in net external migration at around the same time, as is shown in the adjacent chart for the Waikato and the Top of the South (i.e. Nelson, Tasman and Marlborough). When job opportunities improve in Australia it results in most regions experiencing increased emigration and when job opportunities deteriorate in Australia most regions experience low levels of emigration. Equally, when national immigration increases or falls most regions participate to some degree.

The coincidence of regional and national upturns and downturns in the numbers of dwelling sales is for

good reason and means that the most important things to assess in predicting regional and national outlooks is what will happen to interest rates and external migration, as well as taking into account the likely impact of special factors like the bank lending restrictions. Our analysis of the national outlooks for interest rates is summarised in the **Housing Prospects** and **Building Barometer** reports and provided in full in the monthly economic reports (i.e. the **Interesting Times** reports). Visit [www.sra.co.nz](http://www.sra.co.nz) for info on these reports. This is why we offer subscribers to the **Regional Barometer** reports the option of buying one-off copies of the other reports. But our summary views on the impact we expect interest rates and national net external migration to have on regional housing markets are contained in the **Regional Barometer** reports.

Just as we supply the most reliable predictions for national dwelling sales and prices, we supply the most reliable predictions for interest rates and net external migration. This means we have a sound basis for assessing the outlooks for national and regional dwelling sales beyond the near-term outlook that is based on the lagged response of dwelling sales to recent changes in interest rates and net external migration (and any special factors that may be at work).

Looking beyond March 2014, the key consideration is the Reserve Bank's plan to hike the OCR more than 2% over the next three years, with the cheapest available mortgage interest rates likely to increase roughly one-for-one with OCR hikes. As covered in a recent edition of **Rodney's Ravings**, the Reserve Bank and bank economists have incorrectly predicted sizeable and imminent upside in interest rates over the last several years, but it is finally time to take this risk seriously (see <http://www.sra.co.nz/pdf/InterestRatesJan14.pdf>).

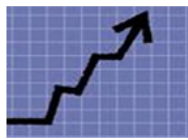


But why have Auckland dwelling sales significantly outperformed the national experience in the last few years while the numbers of Wellington sales have significantly underperformed? This is where the analysis in the **Regional Barometer** reports becomes critical. Regional differences don't occur by chance. They are driven by the sorts of things you would expect (e.g. industry or other developments that resulted in stronger or weaker employment and population growth).

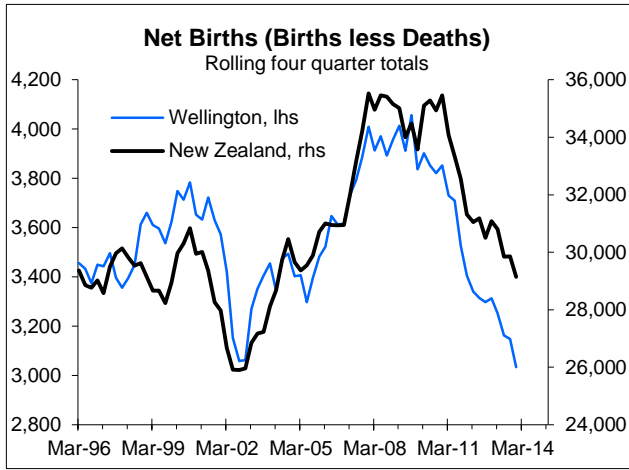
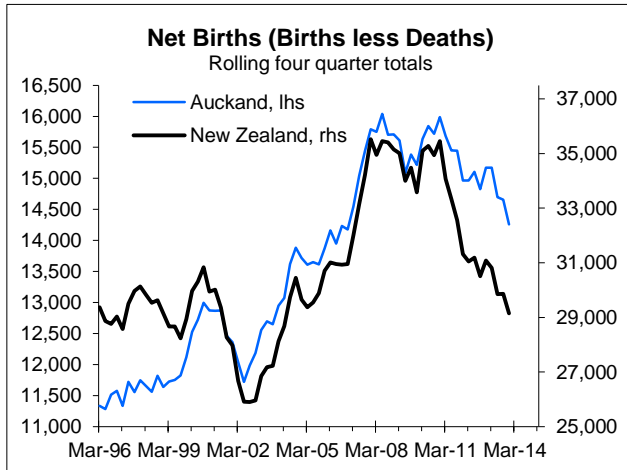
The government sector plays a major part in driving employment in Wellington and over the last few years the government has been downsizing. Wellington has also been adversely impact by an earthquake and may have experienced some fallout as a result of the Canterbury earthquakes. Auckland has benefited

from the Canterbury and Wellington earthquakes. It has benefited more from foreign buyer activity, while Auckland is more prone to borrower buying frenzies in response to low interest rates. Auckland is also benefiting more from new economy, IT-related job creation, as covered in a Raving that looked at regional winners and losers from the evolving economy (see <http://www.sra.co.nz/pdf/EvolvingEconomyJan13.pdf>).

The performance of net births (i.e. births less deaths) also provides useful insights into what is going on at the regional level. National birth rates have fallen in the last couple of years (i.e. fewer births per 1,000 women in the child-bearing age groups), but net births have outperformed the national experience in Auckland (left chart below) and underperformed in Wellington (right chart below). This will reflect more than a greater propensity to have



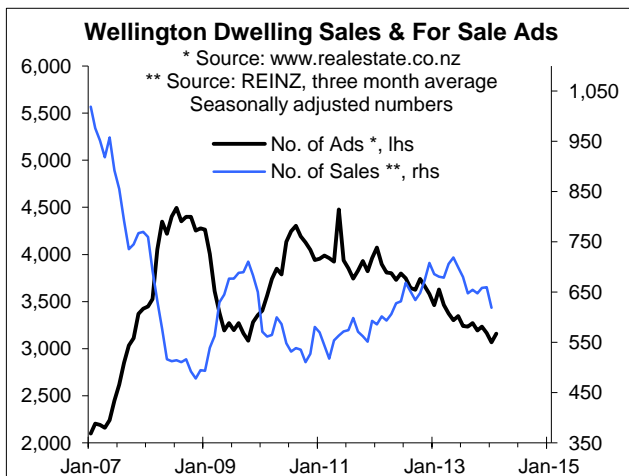
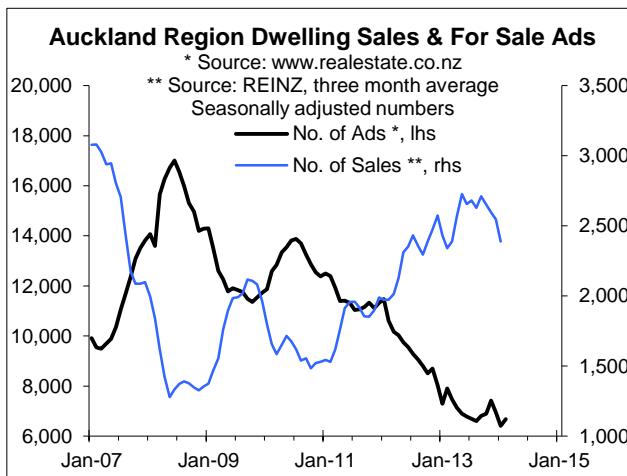
children in Auckland than Wellington. When a region is outperforming in terms of job creation it will be attracting working age people who are often also in child-bearing age groups, while when a region is losing workers this will also be reflected in birth rates. By analysing regional employment, net births, migration and industrial-commercial building consents, as is done in the **Regional Barometer** reports, we have a sound basis for assessing which regions are likely to outperform or underperform in terms of the numbers of dwelling sales.



- **Quantifying the demand-supply balance is critical to assess dwelling price prospects**

Regional housing markets operate in a reasonably textbook fashion. If demand is high and the stock of property available for sale is low, prices will be bid up, while if demand is weak and there is a large stock of property for sale, prices will head down. However, prices more readily increase in response to a strong demand-supply balance than they fall in response to an adverse balance. This is because many vendors can opt not to sell or to delay selling when adverse market conditions develop, although this doesn't stop prices from falling in a particularly adverse market and especially in the unlikely event of lots of forced or mortgagee sales (e.g. the US experience between 2008 and 2010). But in any circumstance, prices can take several months to respond to changes in the demand-supply balance. This means quantifying the current demand-supply balance provides a good basis for assessing the near-term outlook for dwelling/house prices (i.e. the outlook over the next several months). We do this for Auckland and Wellington using the two charts below.

The discussion on the previous two pages covers most but not all of the national and regional factors we take into account in assessing demand prospects for existing housing for the regions (i.e. what will drive the number of dwelling sales). Reflecting the level of demand, the charts below show the numbers of dwelling sales reported by REINZ for Auckland and Wellington (the respective blue lines). The numbers of dwelling for-sale ads reflects the current level of supply (see the respective black lines in the charts below). What happens on the residential building front will partly drive the future level of supply of housing (see pages 6-13). The relativity between the number of sales, which reflects demand, and the number of for-sale ads, which reflects supply, quantifies the demand-supply balance for each region.

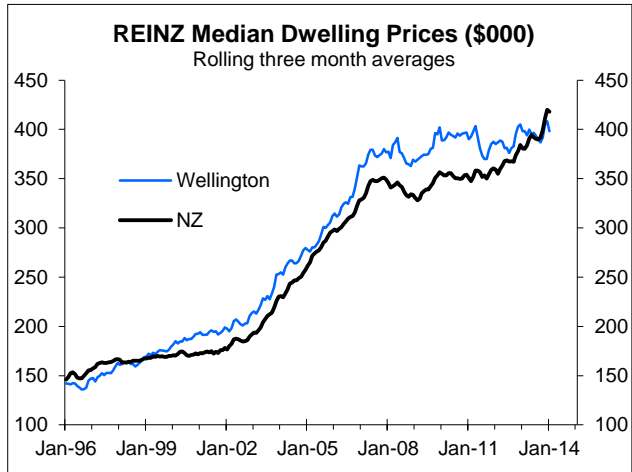
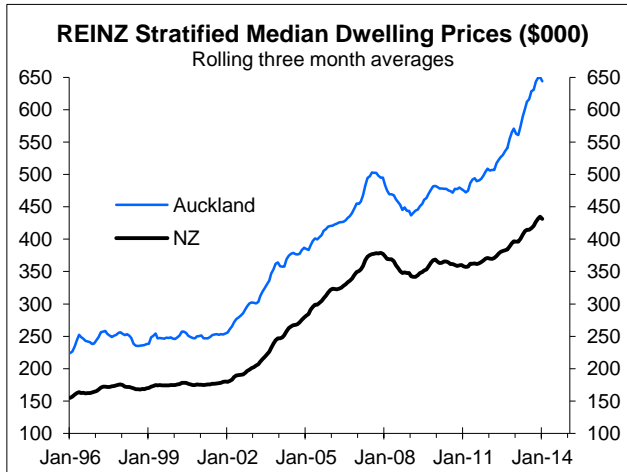


The charts above are set up to show meaningful relationships between the numbers of sales and the numbers of for-sale ads. In general if the number of sales is above the number of for-sale ads for the region the demand-supply balance is conducive to house prices increasing, while the larger the gap the more upside there should be



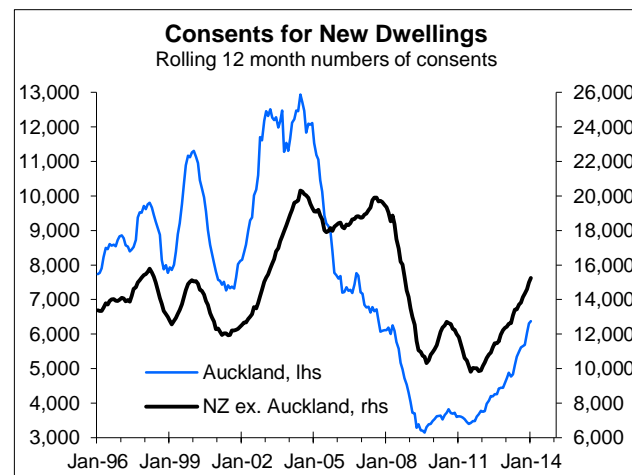
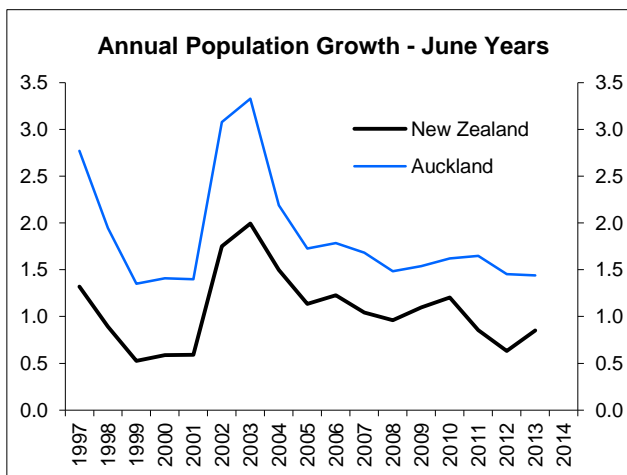


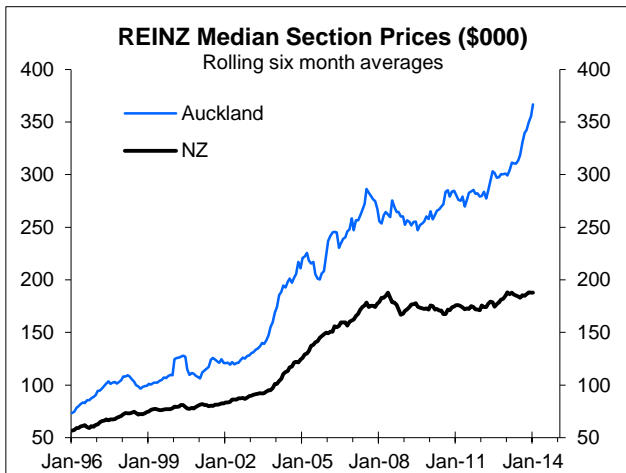
in prices in the near-term. In general if the number of sales is below the number of for-sale ads the demand-supply balance is adverse and house prices should fall in the near-term, while the larger the adverse gap the more house prices should fall. Based on the demand-supply balances shown in the charts above there should be no surprise that Auckland house prices have been increasing at a rapid pace over the last couple of years while Wellington house prices haven't increased much (see the dwelling prices charts below).



The current demand-supply balance provides insights into what will happen to dwelling prices in general in the region over the next several months. Predicting prices further ahead relies on our assessment of what will happen to demand, as covered above, and supply in the region. The future level of supply (i.e. the number of properties for sale) will be driven by two main factors:

- The level of demand (i.e. the number of sales). If the monthly number of sales increases quite a bit it will generally eat into the stock of property for sale at a faster rate than new properties are being added so the stock will fall. If the number of sales falls enough it results in the stock of property for sale increasing because fewer properties are removed from the stock than new properties are added. In general this is the most important factor impacting on the stock of property for sale. This is reflected in the generally strong inverse relationships between the numbers of sales and the numbers of for-sale ads shown for Auckland and Wellington in the two charts at the bottom of page 4. This means our assessment of the outlook for demand is also the most important driver of the cyclical outlook for supply in the existing housing market.
- Whether residential building is keeping up with increasing demand for housing, assuming population growth justifies upside in the housing stock. Obviously, if population growth is negative, which can happen at the regional level, the question is whether residential building falls enough to mean a surplus of housing doesn't eventuate. Council policies have played a significant part in determining whether residential building has kept up with the boost to housing demand from population growth, with Auckland being a good example of this (Tauranga is another good example). The Auckland region has consistently experienced stronger population growth than nationally (left chart) and yet the number of consents for new dwellings has gone from significantly outperforming the national experience prior to 2005 to significantly underperforming subsequently (right chart).





In Auckland and most major urban centres councils have limited new subdivision development and tried to force intensification in existing urban areas. Councils have also dramatically increased the fees they charge developers (e.g. development contributions). By limiting the supply of new sections in the face of reasonably strong population growth in Auckland the council policies have played a key part in driving the dramatic increase in median section prices reported by REINZ for Auckland relative to the rest of the country in the last several years, as shown in the adjacent chart. The Auckland median section price has increased 44% since mid-2009 while the national median has increased only 8% and the national increase has been driven almost entirely by the Auckland increase. Surging section prices and a low level of building in Auckland relative to population

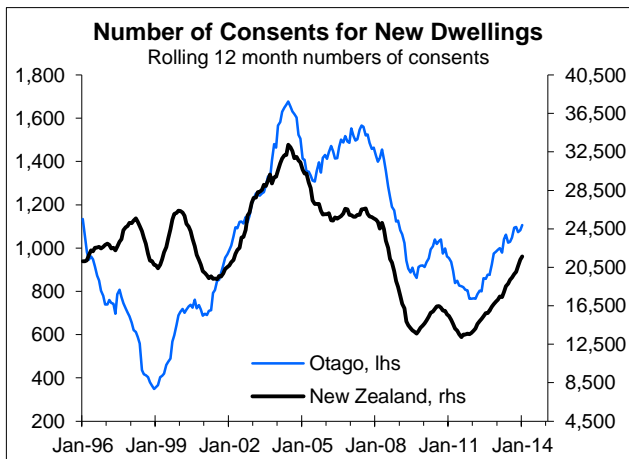
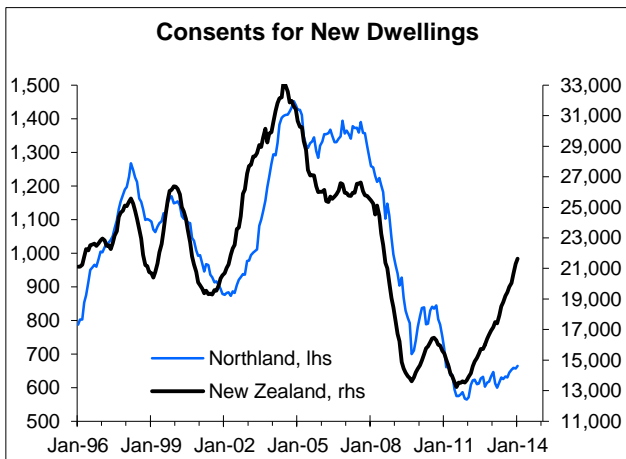
growth has played a key part in justifying Auckland dwelling prices increasing much more than the national average, but this issue has been relevant to varying degrees in other regions/cities.

When viewing the outlook for supply in the Auckland existing housing market over the next 3-10 years as opposed to the cyclical behaviour driven mainly by changes in interest rates, what happens with the Auckland Housing Accord and other government initiatives designed to boost section supply and get down section prices and new housing costs will be of significant importance. This issue will be relevant directly and/or indirectly in all regions. Directly in Auckland and the eight additional areas the Minister of Housing has announced will have housing accords (i.e. Tauranga, Western Bay of Plenty, Kapiti, Porirua, Hutt City, Upper Hutt and Christchurch) and indirectly for the rest of the country because what happens in these nine areas as a result of the government housing initiatives will filter through the national housing market. These issues are covered in the second part of the **Regional Barometer** reports that assesses the factors that will drive the level of residential building, including analysis of the section market and an assessment of the likely impact of the housing accords.

### What drives regional residential building?

- **National and regional factors determine the level of regional residential building**

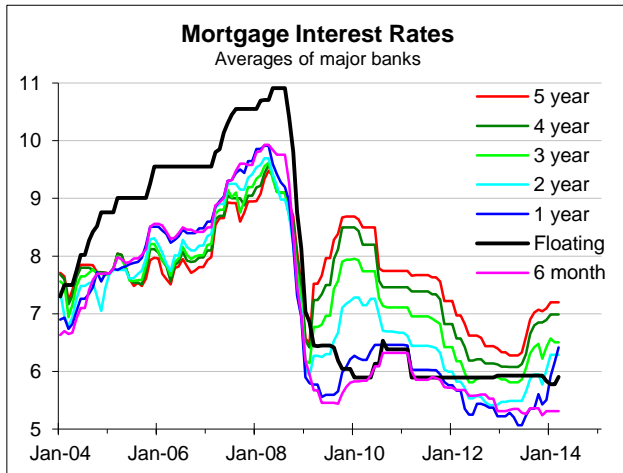
This time Northland and Otago are used to demonstrate the analysis contained in the **Regional Barometer** reports to assess the regional outlook for residential building (i.e. whether the number of consents for new dwellings in the region faces significant upside potential or downside risk in the year ahead and whether the region is likely to significantly outperform or underperform the national experience in terms of the number of consents for new dwellings). The charts below show the rolling 12 month numbers of consents for new dwellings in Northland versus nationally (left chart) and Otago versus nationally (right chart). Some regions generally experience upturns and downturns in synchrony with the national market but behave differently on occasions (e.g. Auckland, Waikato, Northland and Canterbury before the earthquakes). Some regions sometimes track reasonably closely with the national experience but just as often behave differently (e.g. Otago, Top of the South, Wellington and Bay of Plenty), while some regions deviate more often than not (e.g. Taranaki, Manawatu-Wanganui, Southland, Gisborne and the West Coast). Region-specific factors tend to be more important in driving new dwelling consents than in driving the number of existing dwelling sales, but this is more the case for some regions than for others.





In periods when regional upturns and downturns in new dwelling consents largely mimic national upturns and downturns the local factors are not behaving particularly different from the national factors (i.e. population growth, employment, industrial-commercial development, section prices and the availability of sections). In these periods interest rates are the main driver of national and regional upturns and downturns, while changes in national net external migration that will be largely replicated in the region are of secondary importance.

As is the case in the existing housing market, interest rates are the most powerful driver of upturns and downturns in national residential building, as demonstrated in the **Building Barometer** reports that supply the best available assessment of the outlook for national residential building (use the following link to access info on these reports - <http://www.sra.co.nz/index.php/building-barometer> - and the following link for info on our national forecasting track record - <http://www.sra.co.nz/pdf/BuildingBarometerSample.pdf>). But while it takes 4-6 months for changes in mortgage interest rates to impact on the number of dwelling sales reported by REINZ, it takes



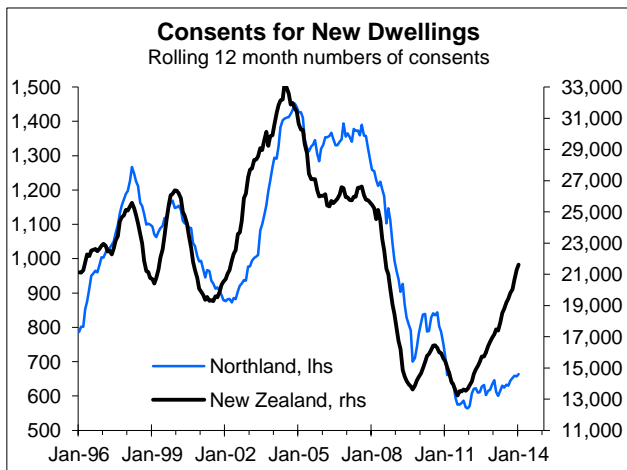
9-12 months for changes in mortgage interest rates to impact on the national number of consents for new dwellings. The longer lagged response for new dwelling consents reflects the significant process involved and time it takes from deciding to build a new house to reaching the stage of getting a building consent. This means we can predict whether there is going to be a significant upturn or downturn in the national number of new dwelling consents over the next 9-12 months with a good degree of accuracy without having to rely on predicting interest rates.

The fall in the various fixed mortgage interest rates shown in the adjacent chart between mid-2010 and early-2013 was the main driver of the upturns in the numbers of new dwelling consents in Northland, Otago and nationally since late-2011 shown in the two charts at the bottom of page 6. Given the normal time lag,

the upside in fixed mortgage interest rates in the second half of 2013 won't start to have a negative impact on national and regional new dwelling consents until around mid-2014. And this impact will be partly offset by the boost to housing demand driven by the sharp increase in net external migration last year.

At the national level what happens to net external migration is of importance, largely in line with the second-fiddle role it plays in the existing housing market (see page 3). It normally takes around ten months for changes in net external migration to filter through to the national number of consents for new dwellings. This means that we can provide a good indication of the outlook for national new dwelling consents over the next 9-12 months based on just the lagged impact of changes in mortgage interest rates and net external migration (i.e. without having to rely on our predictions for these two major drivers). But in the **Building Barometer** reports we also assess the outlooks for interest rates and net external migration, and use these to assess the outlook for national new dwelling consents over the next two years, while we also take account of the likely impact of other relevant factors (e.g. Canterbury rebuilding, government housing initiatives and the affordability of sections).

The national analysis in the **Building Barometer** reports will be of some relevance to the regional outlooks, which is why we offer subscribers to the regional reports the option of buying one-off copies of the national report. But the **Regional Barometer** reports will summarise what we think the national outlook implies for the region to supplement the regional analysis that will at times be of most importance.



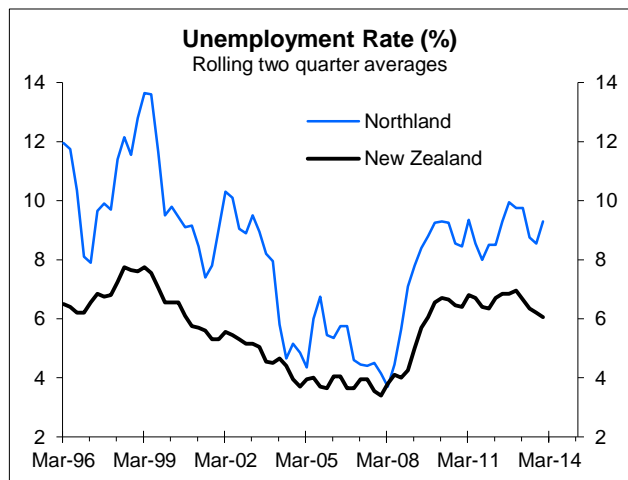
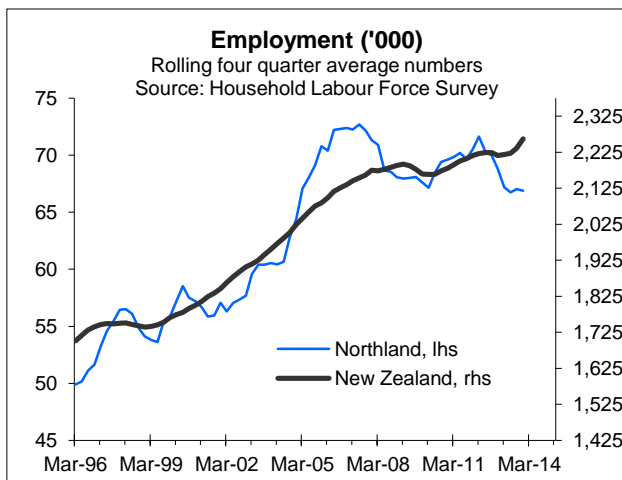
Northland has generally mimicked or lagged the national experience with new dwelling consents, as shown in the adjacent chart. But Northland significantly outperformed in 2006 and 2007, and has significantly underperformed since 2011 with this only partly because of the boost of Canterbury rebuilding to the national numbers. Divergences in Northland's economic and demographic performance relative to the country at large provided advance warnings of both the period of outperformance and the more recent period of underperformance.

The left chart below shows that Northland employment increased significantly more than national employment in 2005 and 2006, and remained elevated in 2007. The right chart below shows the unemployment rate in Northland fell significantly relative to the national rate

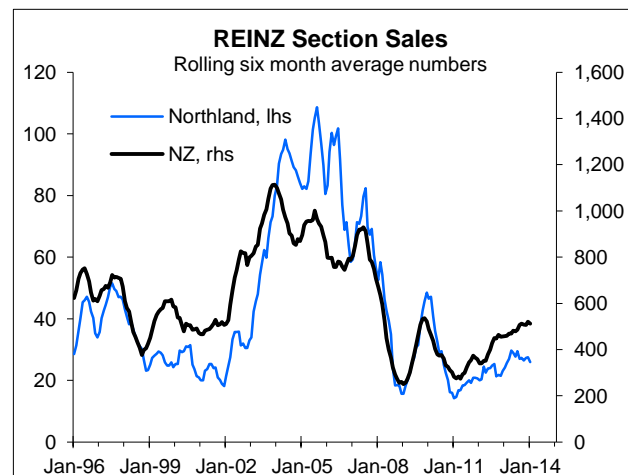
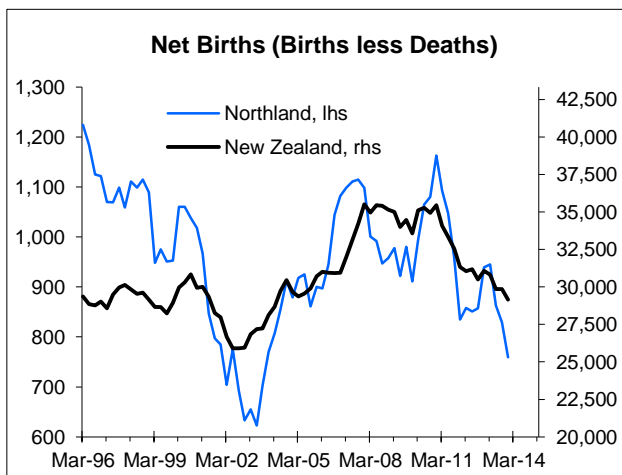


in 2003 and 2004, and largely remained closer to the national unemployment rate until 2008 when the local rate increased significantly more than the national rate. Some caution is warranted in interpreting the regional labour force data because it can be subject to significantly quarterly sampling errors, which is why we use a rolling four quarter average of the employment numbers and a two quarter rolling average of the unemployment rates in the charts below. But even allowing for quality issues with the data, some thing or things were going on in Northland in the mid-2000s that drove a major improvement in the labour market.

There was also a major improvement in the natural increase in the Northland population between 2003 and 2007, with net births improving dramatically relative to national net births, as shown in the second left chart below. Changes in net births (i.e. births less deaths) are generally driven by changes in births. Changes in births can be driven by either a change in birth rates (i.e. more or less births per 1,000 women in the child-bearing age group) or by changes in the number of women in the child-bearing age group. Normally when a region significantly outperforms in terms of employment it attracts working-age people from other parts of the country and sometimes from overseas, with a portion of this group also being in the child-bearing age group. The strengthening labour market and improved net births in Northland foreshadowed the period of outperformance of local new dwelling consents. Equally, the end of the outperformance of these indicators largely foreshadowed the end of Northland's outperformance in terms of new dwelling consents.



Section sales is one of the most useful leading indicators of the near-term outlook for new dwelling consents and the larger upside in Northland section sales than national section sales that started in 2003 and the subsequent outperformance of Northland section sales that continued until mid-2008 foreshadowed the outperformance of Northland new dwelling consents (see the right chart below for the performance of Northland versus national section sales reported by REINZ). There was interaction between what was going on in the labour market and the section market, with a boom in subdivision activity and section sales in many parts of Northland over this period helping drive stronger employment growth, while as the subdivision boom ended the labour market deteriorated.

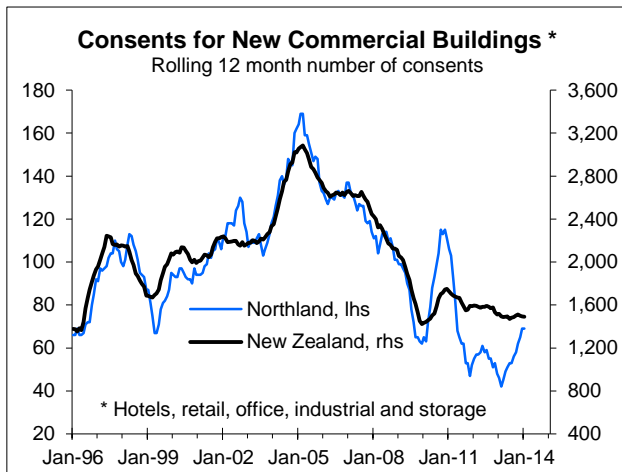
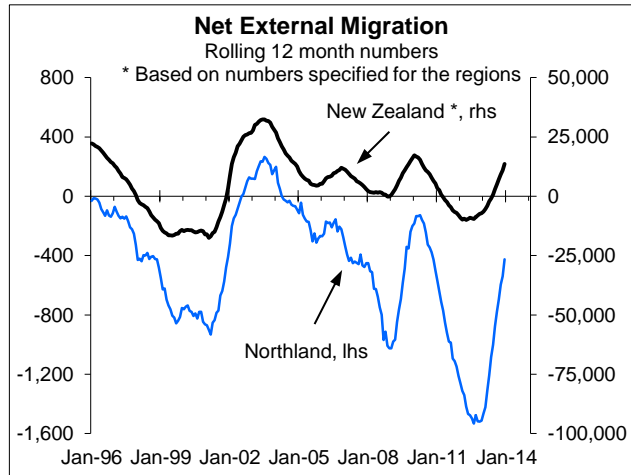
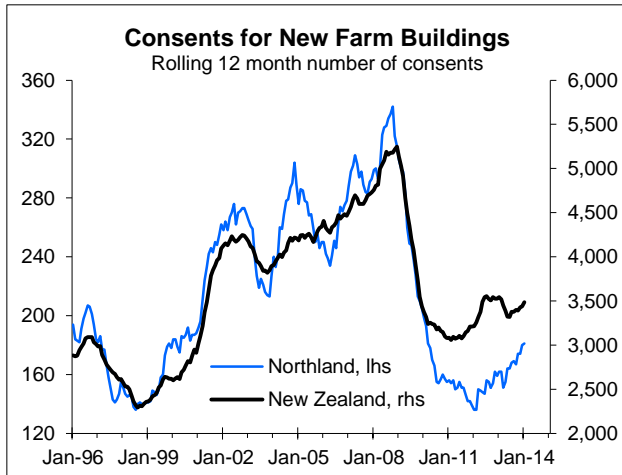


The indicators in the four charts above and most directly section sales forewarned that Northland new dwelling consents would underperform the national experience from 2011, but other indicators provided more reasons for expecting Northland residential building to significantly underperform. There is a sizeable rural component to the Northland economy and in 2010 the number of consents for new farm buildings in Northland started to





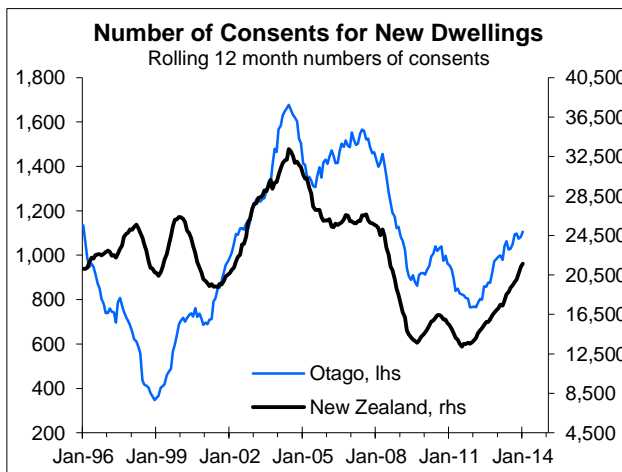
significantly underperform the national experience and this has largely remained the case as shown in the left chart below. By contrast, prior to 2010 Northland farm building consents largely cycled with national consents although tended to experience sharper upturns and downturns. A significant part of the Northland economy was suffering and this will have made heading to Australia more attractive for Northland's rural and rural-service workers than national workers on average. Reflecting this, the underperformance of Northland net external migration relative to national net external migration started to increase significantly in the second half of 2010, as shown in the right chart below. This was driven by a dramatic increase in Northlanders emigrating to Australia, with this outflow of workers draining population and demand for new housing.



It didn't provide a forewarning, but starting in mid-2011 Northland consents for new commercial-industrial buildings began to significantly underperform the national experience as shown in the adjacent chart. Consents for new commercial-industrial buildings provide a useful insight into the health of the business sector (i.e. whether it is expanding or suffering). Clearly, the Northland business sector has suffered in recent years, which fits in with the underperformance of the labour market and the incentive for local workers to head overseas or elsewhere in search of jobs.

The sorts of indicators included in the **Regional Barometer** reports enable us to get an understanding of what is going on in the local economy that is of relevance to population growth and demand for existing and new housing. The reports also include more analysis of regional section markets than has

been covered for Northland, as shown for Auckland and Taranaki on page 12.



In Otago the timing of upturns and downturns in the number of consents for new dwellings has largely coincided with the national cycles since 2002, but the local numbers have outperformed in level terms. Prior to 2002 the Otago numbers behaved very differently from the national numbers as shown in the adjacent chart.

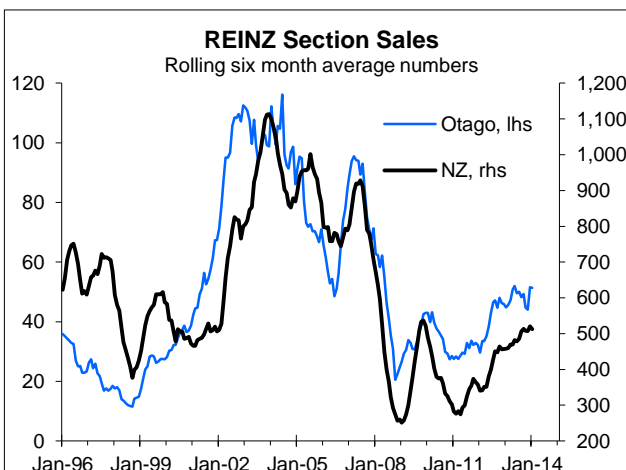
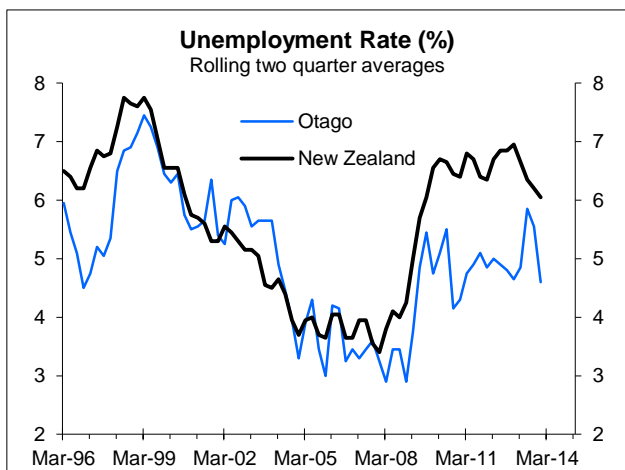
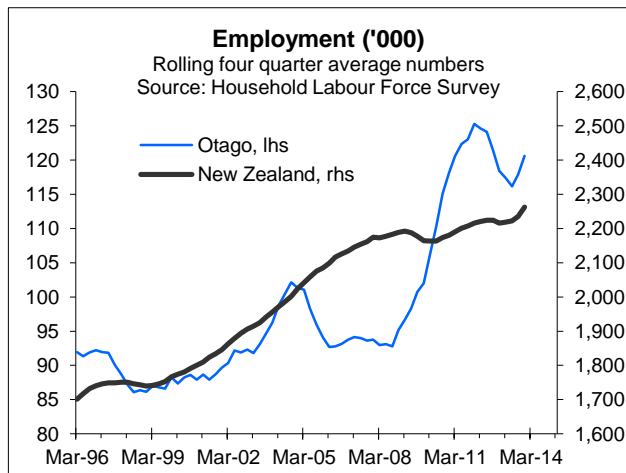
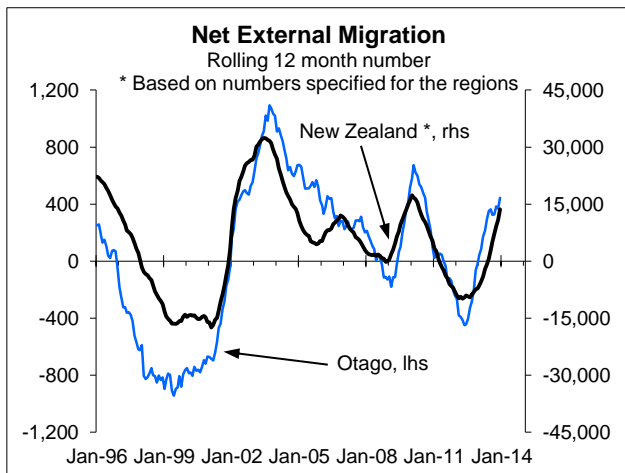
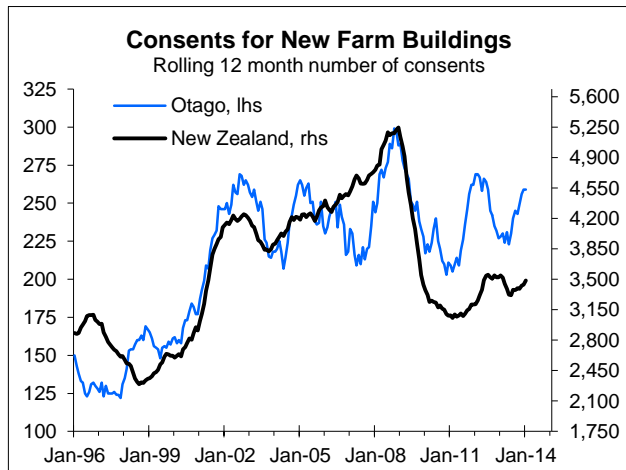
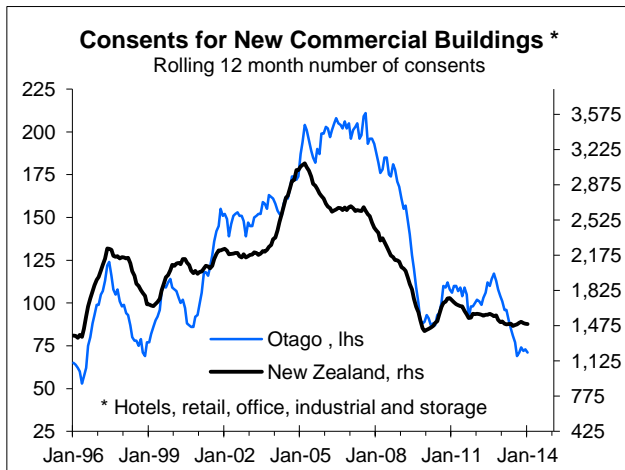
The Otago experience has been very different from the Northland experience, but as is the case for most regions most of the time the analysis in the **Regional Barometer** reports can not only explain this after the event but could have provided advance warning.

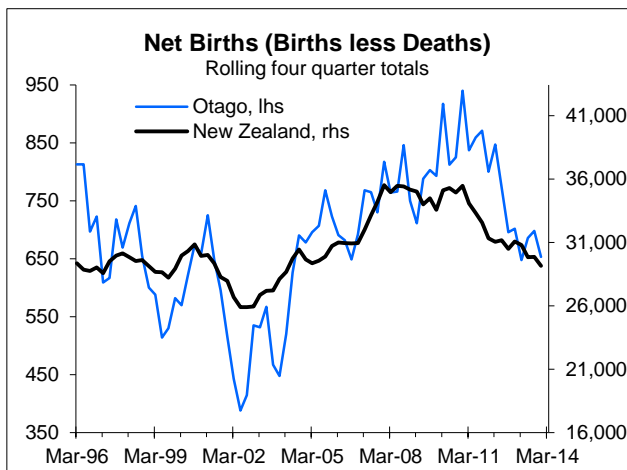
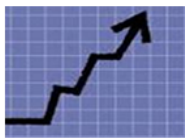
In the case of Otago what needs to be explained is why new dwelling consents hugely underperformed the national experience for much of the second half of the 1990s and significantly outperformed the national

experience since 2005-06 in terms of the level of consents, albeit that local upturns and downturns largely coincided with the national experience since 2002.



The first thing that stands out is that between 1996 and 2001 Otago consents for new commercial-industrial buildings significantly underperformed the national experience as shown in the left chart below. Otago consents for new farm buildings also significantly underperformed the national experience in 1996 and 1997 as shown in the right chart below. Foreshadowing the underperformance of Otago new dwelling consents that started during 1996, the local business sector and rural sector were under pressure. This became reflected in Otago net external migration significantly underperforming the national experience (2<sup>nd</sup> left chart below) and local employment underperforming relative to national employment (2<sup>nd</sup> right chart below) and the local unemployment rate increasing from well below the national average to being more in line with the national average (3<sup>rd</sup> left chart below). Providing a lead on the underperformance of local new dwelling consents, the bottom right chart shows that local section sales reported by REINZ started to significantly underperform national section sales in 1996. The underperformance of local section sales largely continued until late-1998 when upside in local section sales relative to national sales provided an advance warning that local new dwelling consents would start to increase relative to national consents.



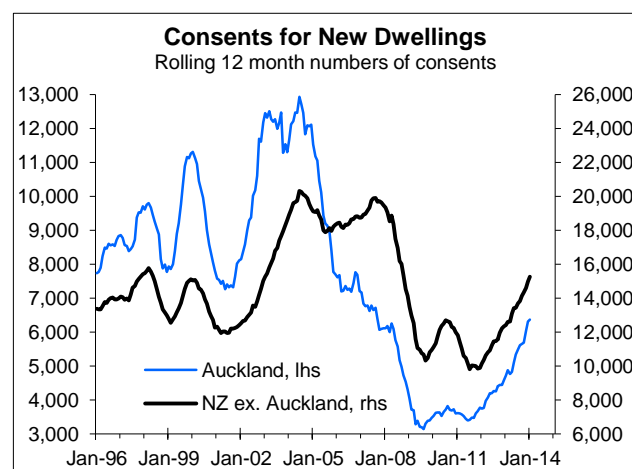
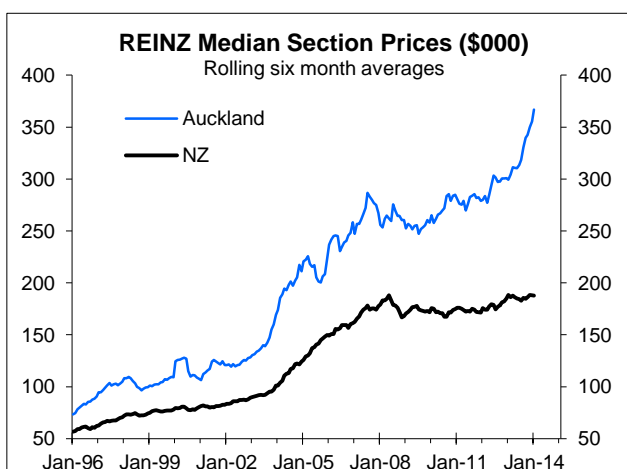


The outperformance of Otago relative to national new dwelling consents that started in 2003-4 was foreshadowed by local consents for new commercial-industrial buildings starting to outperform the national experience in 2002 (top left chart, page 10). The underperformance of local net external migration ending in 2001 (2<sup>nd</sup> left chart on page 10). Local employment started to increase relative to national employment in 2003 (2<sup>nd</sup> right chart, page 10). The local unemployment rate started to fall significantly relative to the national rate in late-2003 (bottom left chart, page 10), although we again caution about the quality of the regional labour market data. The surge in local section sales relative to national sales in 2001-02 provided an advance warning of the imminent outperformance of Otago new dwelling consents.

It hasn't been consistently the case across all of the Otago indicators shown in the charts above, but on average local indicators have outperformed the national equivalents since around 2003, while in the case of consents for new farm buildings the outperformance started in the second half of 2009 (top right chart, page 10). In net the Otago economic and demographic indicators have justified the ongoing outperformance of the level of new dwelling consents relative to the national performance. However, changes in interest rates that have for the last few decades been the main driver of national upturns and downturns in new dwelling consents have also been the main driver of upturns and downturns in Otago new dwelling consents in recent years (i.e. both national and regional drivers need to be assessed to correctly predict the outlook for Otago new dwelling consents, as is the case for the vast majority of regions).

- **Affordability and especially section prices can play an important part**

The role council policies played in determining section prices and the impact on the level of residential building and existing dwelling prices was discussed in the context of the Auckland experience on pages 5-6. It is worth revisiting in the context of the analysis of section markets contained in the residential building sections of the **Regional Barometer** reports. It is no coincidence that the widening in the gap between Auckland and national average section prices that started in 2004, as shown in the left chart below, was followed by Auckland consents for new dwellings underperforming national consents, as shown in the right chart below. The collapse of apartment building in Auckland between 2005 and 2008 was part of the story and reflecting that apartment building can be important for some regions the **Regional Barometer** reports include some analysis of apartments. But surging section prices priced a sizeable portion of would-be new home owners out of the Auckland market and resulted in a disconnection between population growth and the level of residential building. This is achieved by a range of behaviours: young people staying home longer or moving back home; people with spare rooms renting them out to help pay the mortgage or rent; retired people moving in with each other or moving in with family; and more multi-family households that can be achieved by converting garages and outbuildings to living quarters, and by adding sleepouts.



In response to the affordability hurdle the Minister of Housing as launched a range of housing initiatives designed to get down new housing costs and especially section prices, starting with the Auckland Housing Accord. We are monitoring what is happening with these initiatives and will comment on the impact we expect the initiatives to have in the **Regional Barometer** reports. To help assess the impact we will be monitoring how many sections



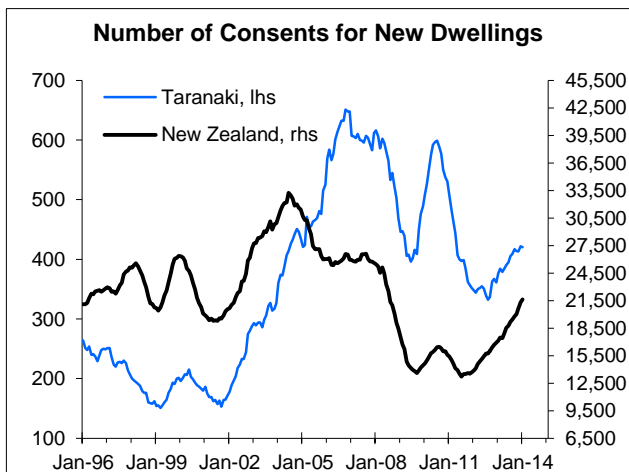
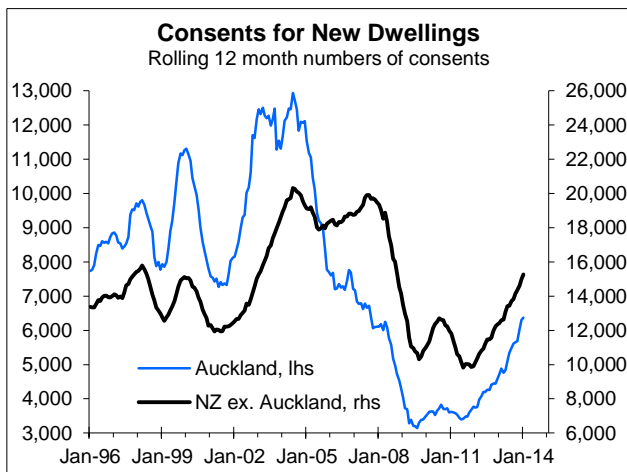
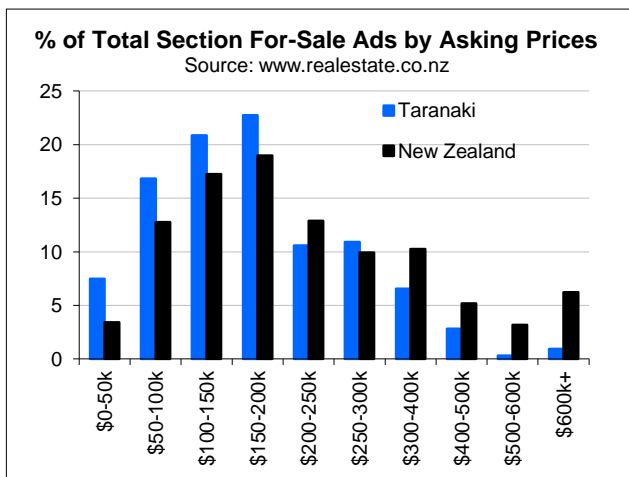
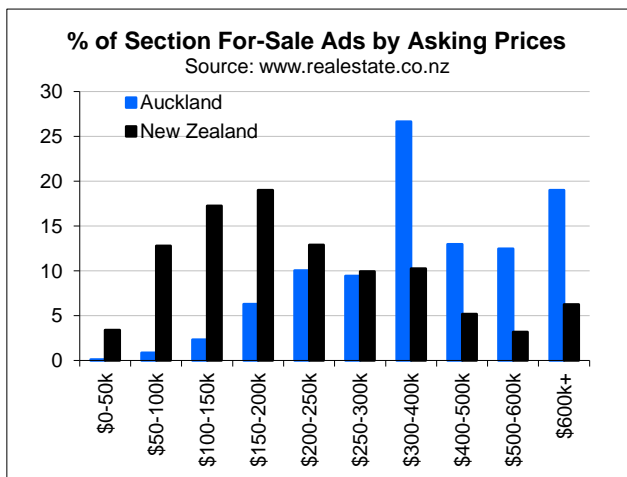
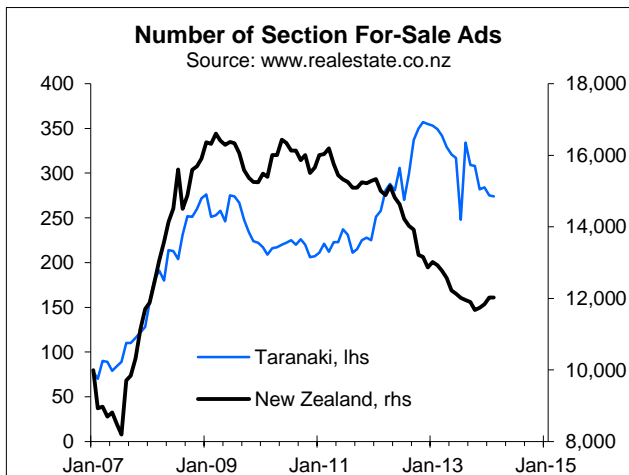
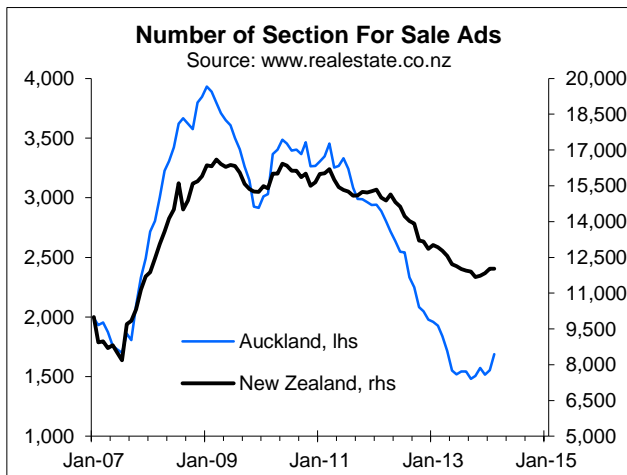
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are advertised for sale with real estate agents for each region relative to nationally and how asking prices for sections stack up in the region versus nationally.

The left chart shows the number of sections advertised in Auckland versus nationally and highlights the lack of supply in Auckland. By contrast, the right chart shows the number of sections advertised for sale in Taranaki versus nationally, which shows that Taranaki is much better placed in terms of the availability of sections to buy and build on. Things are just as extreme when we look at the asking prices for the sections advertised for sale with real estate agents, as is done in the second two charts below that show the percentage of sections advertised for sale by asking price brackets. While Taranaki has 45% of the sections advertised for sale with asking prices of \$150,000 or less versus 33% nationally, only 3% of Auckland sections have asking prices of \$150,000 or less. Looking at the other end of the extreme, 71% of Auckland sections have asking prices of \$300,000 or more versus 25% nationally and 11% in Taranaki. It should therefore be no surprise to find that while the level of new dwelling consents in Auckland is underperforming the national average experience (bottom left chart), Taranaki is outperforming compared to the national experience (bottom right chart).



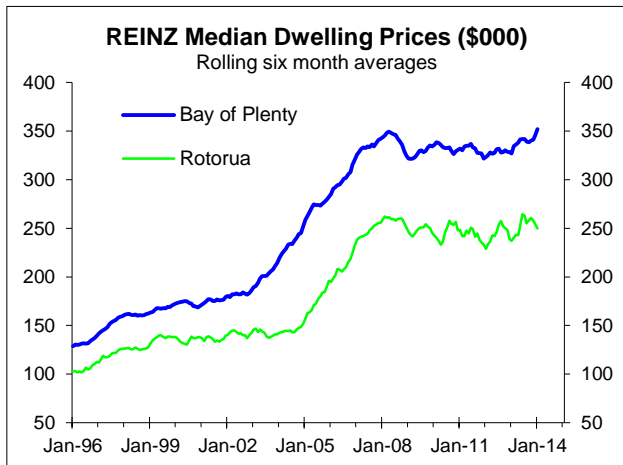
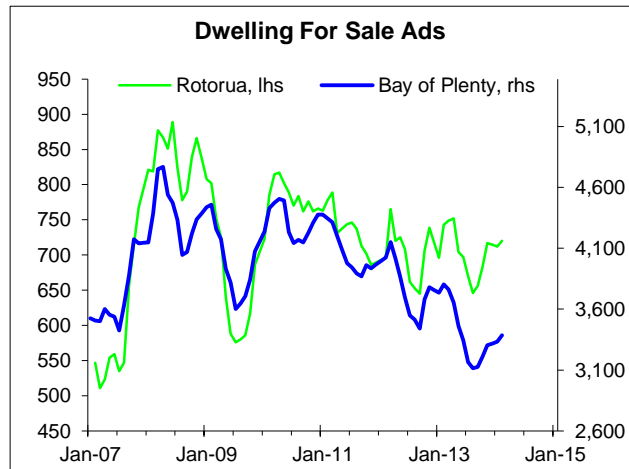
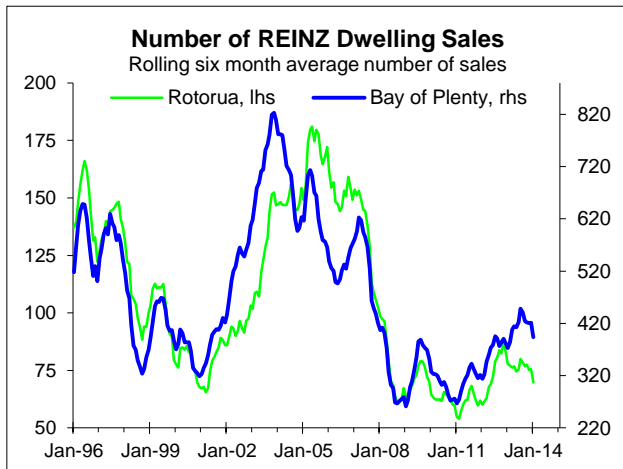




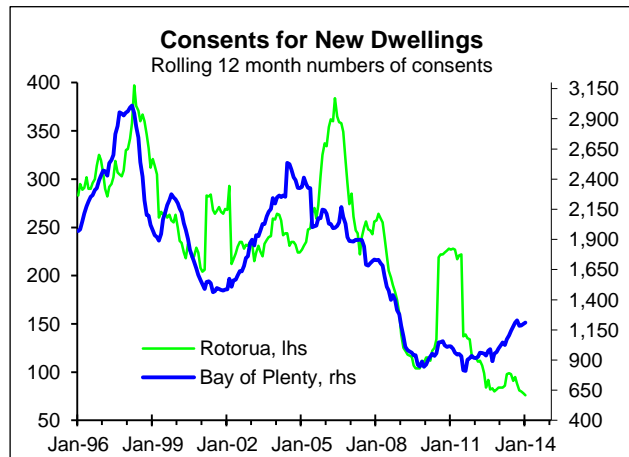
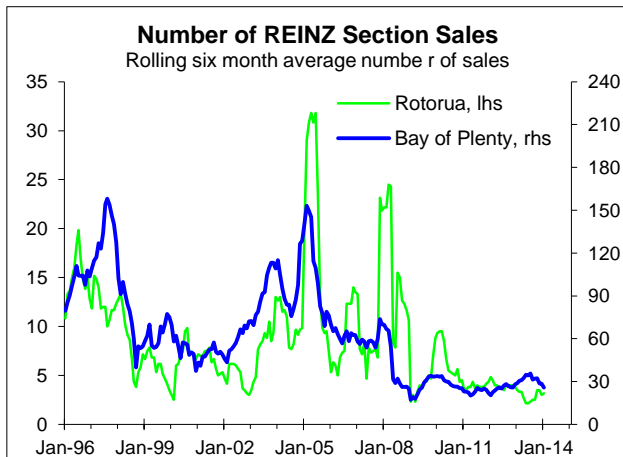
### How do prospects stack up for the cities and major districts?

The analysis for cities and district is not as wide-ranging as the regional analysis, but is sufficiently comprehensive to provide a sound basis for assessing how the city or cities and major districts in the region are likely to perform in terms of house prices and new dwelling consents compared to the region. Where a region has some small districts these are combined (e.g. several of the Waikato districts are combined into Waikato Country; South Canterbury and Mid Canterbury are combined to form Mid-South Canterbury). In a small number of cases larger districts or even cities are combined where it makes sense (e.g. Kapiti and Porirua; Hutt City and Upper Hutt City).

In some cases the city and district performances largely match the regional performance, but there are also cases where cities or districts perform quite differently from the region. For example, Rotorua is significantly underperforming the Bay of Plenty in terms of the number of dwelling sales (left chart) and has a significantly larger stock of property for sale (right chart). It should therefore be no surprise that Rotorua dwelling prices have in recent times drift sideways versus moderate upside being experienced in the region (2<sup>nd</sup> left chart).



When we analysis smaller cities or districts the number of section sales can be extremely volatile, as is the case for Rotorua, but in recent times Rotorua section sales have been underperforming Bay of Plenty sales (left chart below). The demographic indicators have been performing poorly in Rotorua and local industry is clearly not performing well. A lack of population growth, plenty of existing dwellings for sale and no upside in existing house prices has created an environment that isn't conducive to residential building. Reflecting this, Rotorua consents for new dwellings have plunged to despairing depths versus some upside in the last couple of years in the region (right chart below). [Note: the spike in Rotorua consents in July 2010 was because 75 consents were issued for apartments, probably retirement units.]





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The Regional Barometer reports also provide data on consents for new dwellings as shown by the excerpt tables below. The first table shows the monthly numbers of consents for new dwellings in the cities/districts and region for all dwellings (i.e. standalone and multi-unit dwellings including apartments) and for apartments. This is useful in the case of Rotorua because it shows when apartments, which in provincial cities often relate to retirement units, cause a temporary spike in total new dwelling consents. The second table repeats the first but shows rolling 12 month numbers of new dwelling consents.

**Monthly Number of Consents for New Dwellings**

	Total including apartments					Apartments				
	Tauranga	Western BOP	Rotorua	Eastern BOP	Bay of Plenty	Tauranga	Western BOP	Rotorua	Eastern BOP	Bay of Plenty
Jan-10	40	14	9	5	67	0	0	0	0	0
Feb-10	59	9	9	3	80	0	0	0	0	0
Mar-10	46	21	8	10	85	0	0	0	0	0
Apr-10	37	17	20	5	79	0	0	0	0	0
May-10	25	18	8	17	67	0	0	0	0	0
Jun-10	48	22	20	7	96	0	0	0	0	0
Jul-10	53	15	87	20	174	0	0	75	0	75
Aug-10	36	21	13	10	80	0	0	0	0	0
Sep-10	45	29	11	3	88	0	0	0	0	0
Oct-10	37	7	14	3	59	0	0	0	0	0
Nov-10	36	19	20	7	81	0	0	0	0	0
Dec-10	34	13	9	4	59	0	0	0	0	0
Jan-11	40	12	8	5	65	0	0	0	0	0
Feb-11	36	9	10	5	60	0	0	0	0	0

**Annual Number of Consents for New Dwellings**

	Total including apartments					Apartments				
	Tauranga	Western BOP	Rotorua	Eastern BOP	Bay of Plenty	Tauranga	Western BOP	Rotorua	Eastern BOP	Bay of Plenty
Jan-10	446	207	115	100	864	0	0	0	0	0
Feb-10	490	207	115	92	900	0	0	0	0	0
Mar-10	507	215	112	98	929	0	0	0	0	0
Apr-10	520	218	122	97	954	0	0	0	0	0
May-10	496	212	125	105	935	0	0	0	0	0
Jun-10	499	220	134	106	955	0	0	0	0	0
Jul-10	516	208	219	107	1045	0	0	75	0	75
Aug-10	512	210	222	109	1048	0	0	75	0	75
Sep-10	509	223	222	107	1056	0	0	75	0	75
Oct-10	493	209	224	102	1022	0	0	75	0	75
Nov-10	477	215	226	97	1008	0	0	75	0	75
Dec-10	496	205	228	94	1015	0	0	75	0	75
Jan-11	496	203	227	94	1013	0	0	75	0	75
Feb-11	473	203	228	96	992	0	0	75	0	75
Mar-11	458	197	227	88	962	0	0	75	0	75
Apr-11	456	194	217	87	946	0	0	75	0	75
May-11	473	189	221	75	951	0	0	75	0	75
Jun-11	464	177	222	75	932	0	0	90	0	90
Jul-11	452	170	137	61	815	0	0	15	0	15
Aug-11	452	170	137	61	815	0	0	15	0	15