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TONY ALEXANDER

Regional Property Insights

AUGUST 2022



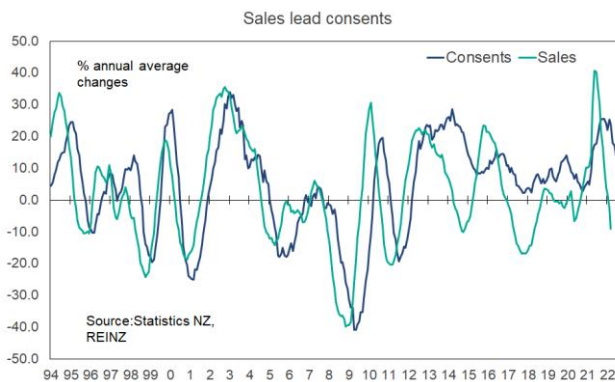
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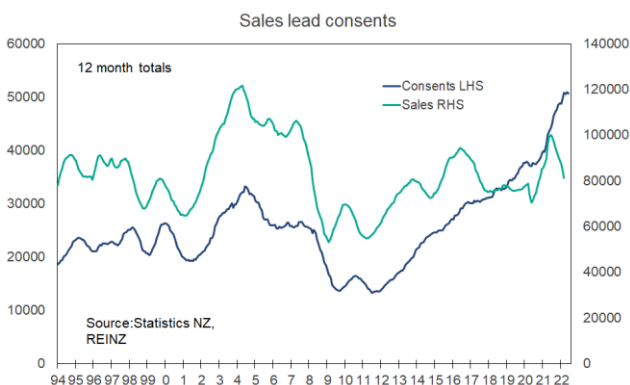
Introduction

Welcome to the latest issue of Regional Property Insights for 2022, prepared by Tony Alexander with the support of First Mortgage Trust.

In this month's issue we look at developments in the number of consents being issued for construction of new dwellings in each region. There has historically been a close relationship between changes in the number of dwellings sold and then changes in consents being issued.



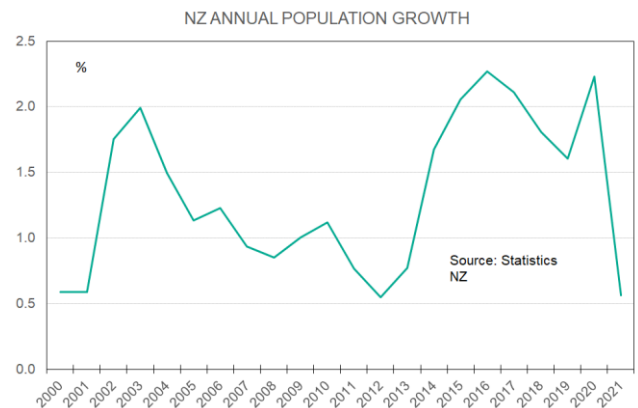
But consent numbers held up over 2017-18 when sales fell away nationwide. This has produced a strong lift in the rolling annual number of consents to the point where consent numbers are now well above where sales would suggest they might otherwise be.



This change will only partly reflect the unique bounceback from low construction following the 2008-09 Global Financial Crisis which was associated with excess residential construction offshore – but not in New Zealand.

The bulk of the surge in consents will reflect the combined effects of a population surge from 2015 attributable to strong net migration inflows, widespread focus on stories of property shortages, shortages of property listings, and central government efforts to promote intensification in our major cities.

The stimulatory policies associated with offsetting negative effects of the global pandemic on the New Zealand economy will also have played a role.



Previous issues of Regional Property Insights are available [here](#).

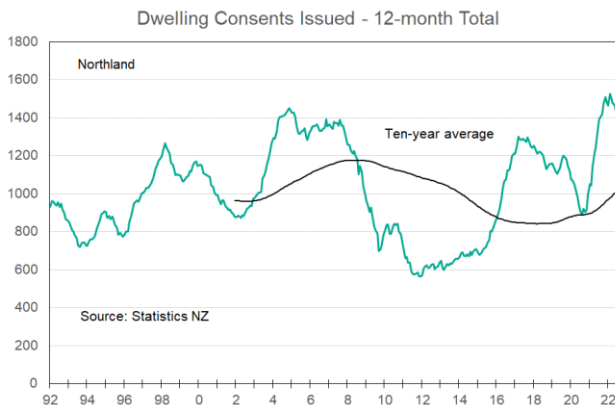
[First Mortgage Trust Articles](#)

Further extensive discussion of house price movements and factors affecting prices can be found in the weekly Tony's View publication available from www.tonyalexander.nz

Northland

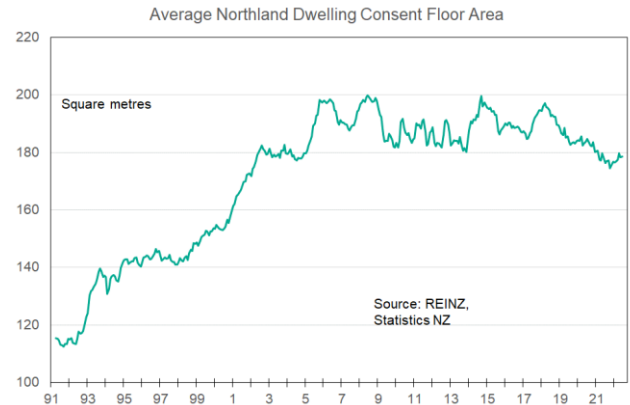
Little shift to townhouses

For many regions our first graph of annual consent numbers shows a strong trend rise from the low levels of 2011. For Northland however the picture is one of a surge up until 2017 then a pullback which coincides with a cooling in the pace of house price inflation in Auckland as city-specific LVR rules cut in and the Unitary Plan made a lot more land available for intensification.

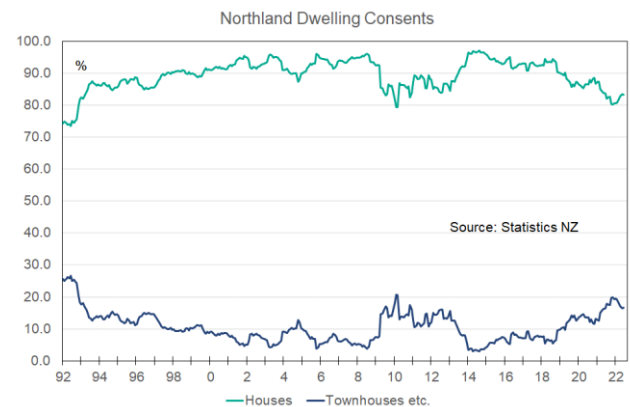


Nonetheless, there has been a firm rise over the past year which is only now showing signs of turning around.

Again, unlike much of the rest of the country and especially the North Island, the average size of dwellings newly consented for construction in Northland has not experienced a strong trend downward. The decrease to an average floor area of 179 square meters from 187 in 2011 is minor compared with the decline for all New Zealand excluding Auckland from 188 to 157.



This lack of a downward trend to a great degree reflects the only limited shift towards more attached dwellings being built.



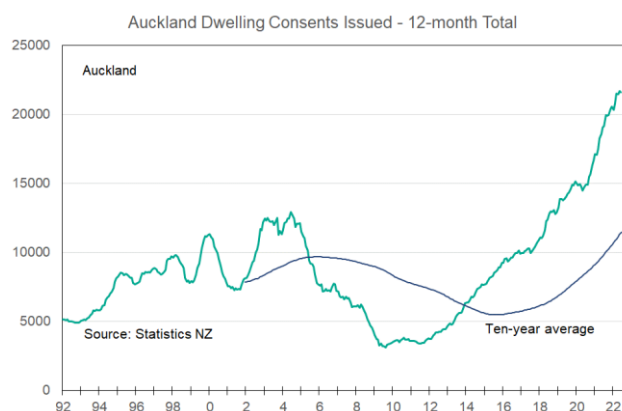
But this same lack of a shift is apparent in the Manawatu-Wanganui and Taranaki regions where average dwelling size has nonetheless appreciably decreased.

A unique aspect of Northland is the continued construction of above average-size dwellings.

Auckland

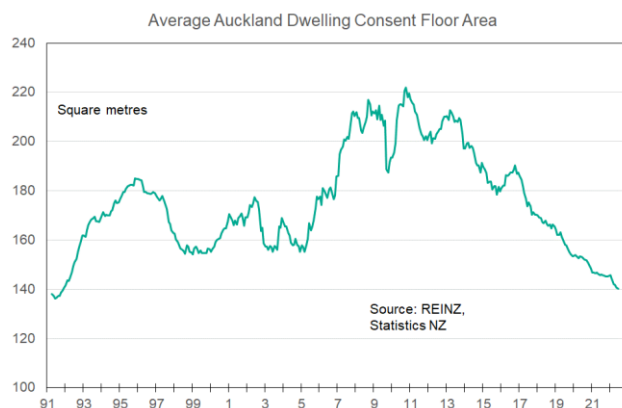
Large house-type shift

In 2011 the number of consents issued for new dwellings to be built in Auckland was just 3,800. The latest number is 21,600 representing an increase of just under 500% compared with 200% for the rest of New Zealand. Numbers have risen in a fairly steady fashion since the post-GFC 2011 low as shown in the following graph.

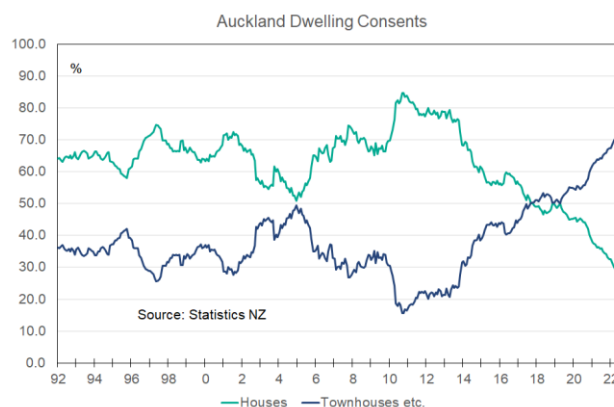
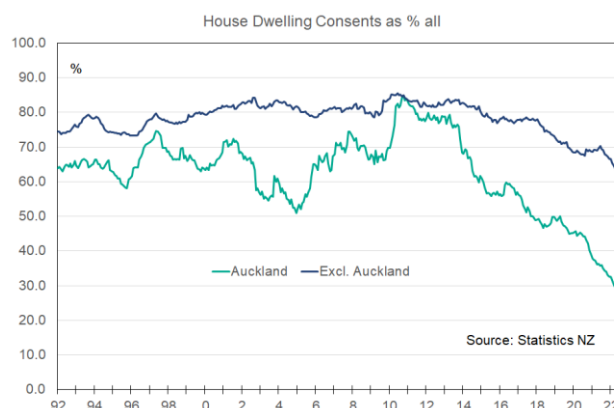


As is the case for virtually all regions, a turning in consent issuance appears to be underway but the extent of the pullback so far is very minor. That is likely to change however through 2023.

One key characteristic of Auckland's construction surge is the sharp decline in the average size of dwellings being built. In 2010 the average area consented per dwelling was just over 200 square meters. The number now is 140 and still edging lower.



This decline has been driven by a strong shift in the type of dwelling being built. In 2011 standalone houses accounted for 77% of all dwellings. That percentage now is just 27%.



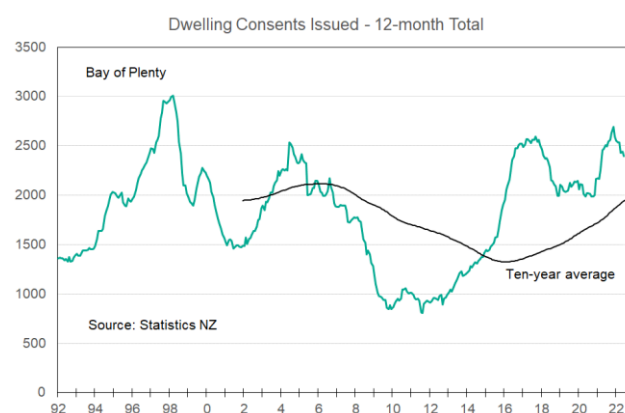
This strong change and the high visibility of townhouses being erected in existing residential areas (intensification as intended by planning authorities) means Auckland in coming months is at risk of people feeling that there is an over-supply of housing.

However, while Kiwis heading offshore to live come from all around the country, migrants have a high propensity to move into Auckland. Opening of the borders will help offset the internal migration losses for the past two years as some older people shifted to retirement lives in the regions. The over-supply, if one exists, is likely to be a short-lived phenomenon.

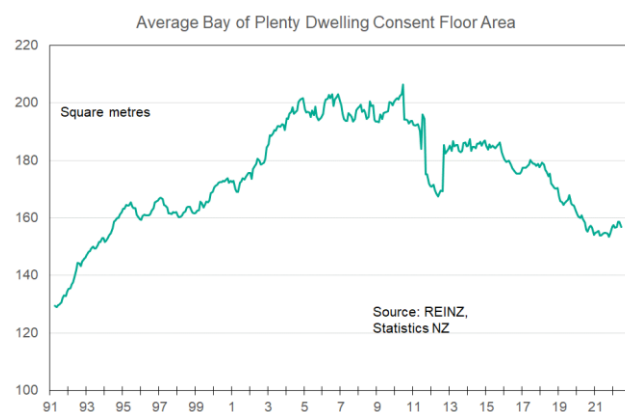
Bay of Plenty

Not changing like Auckland

On average since 1991 1,800 consents have been issued each year for the construction of new dwellings in the Bay of Plenty region. Back in 2011 the number was a lowly 919 and the latest aggregate is 2,400 – a rise from 2011 of 160%. This is slightly less than the 190% rise for all of the country excluding Auckland which boomed almost 500%.

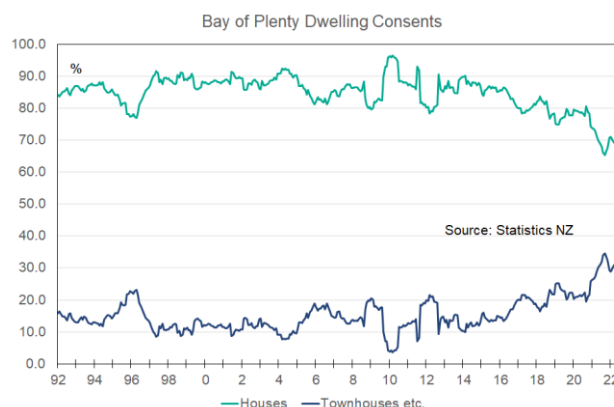


The average floor area of newly consented dwellings has been easing since 2011 but at a slower pace than heavily densifying Auckland.



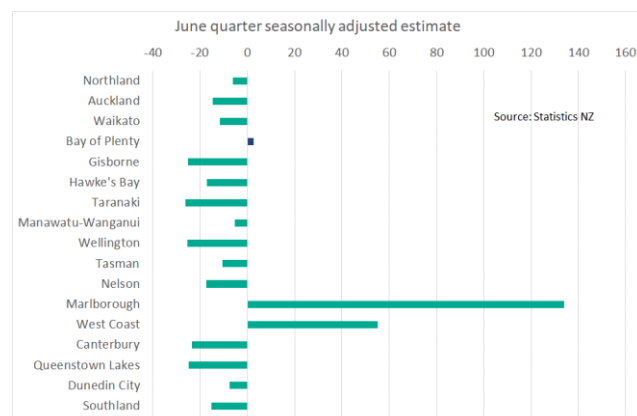
The average new floor area in the past year was 157 square meters compared with over 200 square meters in 2009.

Like Auckland there has been a shift towards more townhouse type developments and reduced construction of standalone dwellings.



But the extent of this shift has been far less than in our biggest city because of the absence of the 2016 Unitary Plan allowing much of Auckland to be intensified. There has also been less population growth pressure and less lack of greenfield development opportunities constrained by infrastructure shortages.

Unlike most other regions there is as yet no shift down in consent issuance numbers. But this is likely to start happening soon.



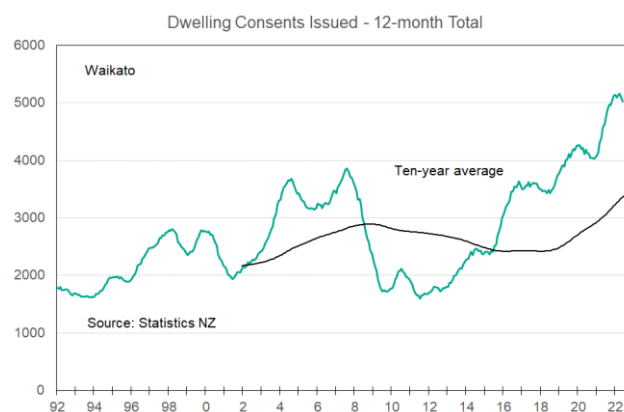
Waikato

Not densifying rapidly

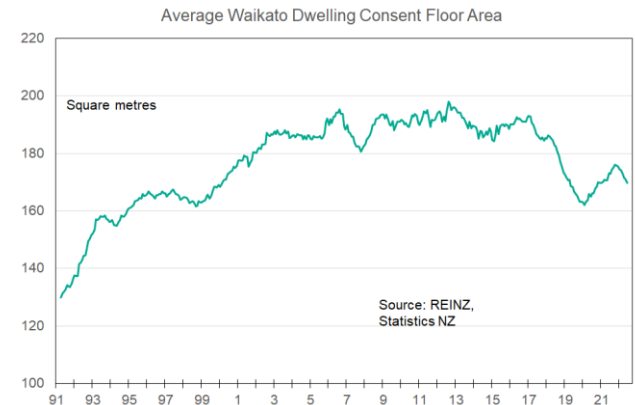
The Waikato region lies just south of Auckland and can reasonably be expected to be a focus of the spillover of economic development broadly defined from an expanding Auckland. Bit by bit, more companies will look to establish production and distribution facilities in the region, and population growth is likely to be above the national average, not just in Hamilton but in the many smaller locations now well served by the Waikato expressway system.

In particular, this road transport system is likely to give the region an advantage over the Bay of Plenty and even Northland for the many older people wanting to cash up their Auckland housing asset but remain close to their offspring and grandchildren if they remain in Auckland.

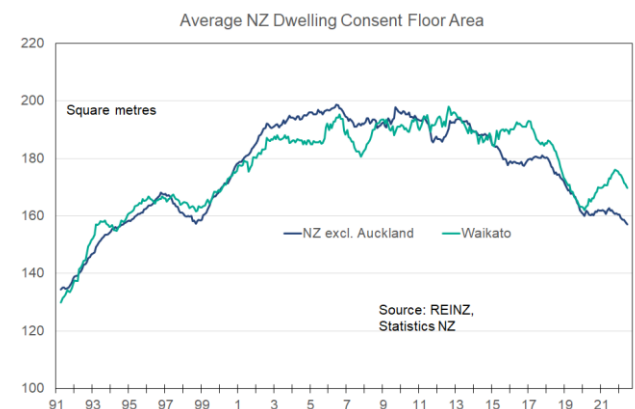
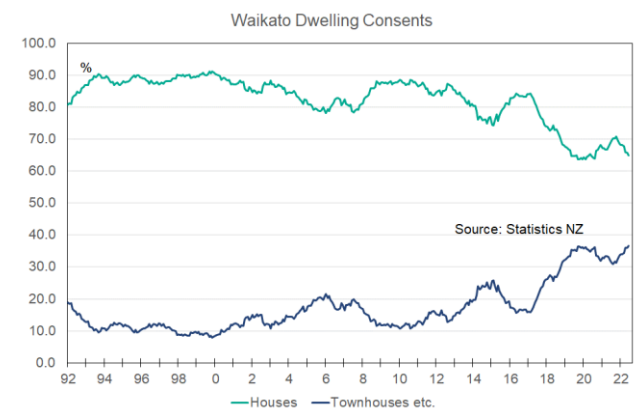
The annual number of consents issued for new dwellings to be constructed in the Waikato region stands at just over 5000. This is a 200% rise from the 1,677 consents issued in 2011 when post-GFC housing blues were at their worst in New Zealand. This 200% rise is slightly greater than the 190% rise for all of the country excluding Auckland.



The average size of a newly consented dwelling in the Waikato region has fallen only slightly since 2011 to 170 square meters from 193.



Notably, while the region has seen a lift in the proportion of consents which are for the traditionally smaller dwelling types of townhouses, apartments, and retirement units, the shift is relatively small.



Gisborne

No intensification trend apparent

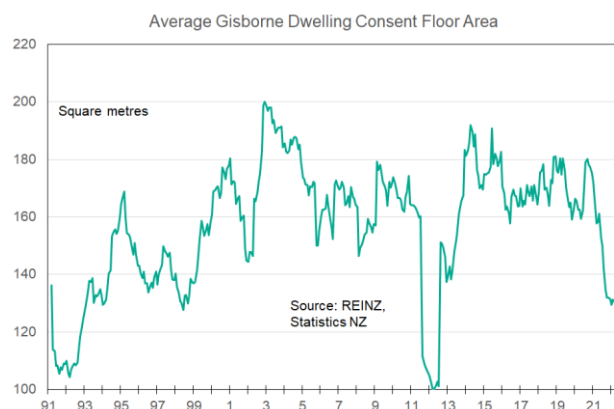
Gisborne is a small region accounting for 1% of the country's population, so we have to be careful not to over-read data and conclude things are happening which may not really be occurring.

There has been a sharp jump in the number of new dwelling consents issued in Gisborne over the past year in lagged response to an intense drying up of new listings and sharp average selling price increases.

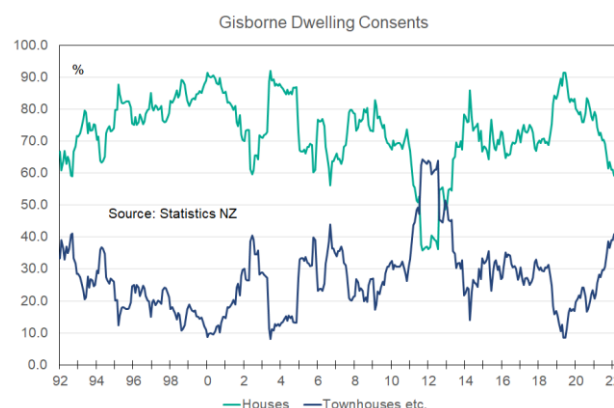


The region does not display the same trending upward issuing of consents as seen above for the likes of Bay of Plenty and Waikato (Auckland of course also). It would seem optimistic based on what the graph shows us to expect that the current bout of construction will extend and enlarge over a large number of years. History suggests a rapid pullback within a relatively short period of time - unless the pandemic-induced early shifting of some older people to the regions continues.

The average size of new dwellings being consented has fallen substantially over the past year to 129 square meters from levels nearer 170 in recent years. But when the total number of consents in the past year is just 179, we have to be careful not to conclude the long-lasting reduction in average new dwelling size is underway.



The decrease in the proportion of consents which are for houses over the past couple of years has happened before and not been sustained.

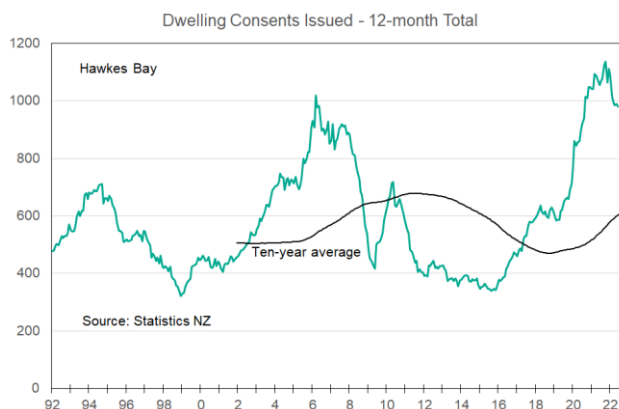


It would not seem reasonable to expect the same densification in Gisborne or any other non-major city location as is happening in our major cities.

Hawke's Bay

Expected correction underway

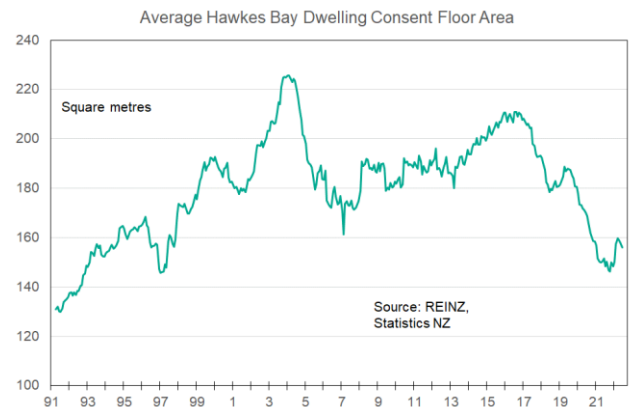
Our first graph, which shows the annual number of consents issued for new dwellings to be built, reveals a firm downward move in such issuance may be getting established in the Hawke's Bay region.



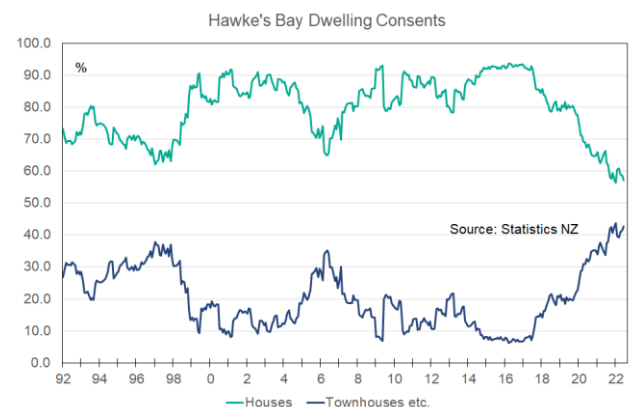
In approximate seasonally adjusted terms consents have fallen by 17% in the June quarter after decreasing 16% in the March quarter and 43% in the December quarter. The NZ-wide changes respectively have been -13%, +4%, and -4%. A correction is underway. Why the greater decline in Hawke's Bay?

Previously in this publication and others I have specifically cited the Hawke's Bay region as one which has experienced a housing boom on the back of older people bringing forward their plans to relocate out of the likes of Auckland because of life decisions encouraged by the global pandemic. The risk is that in the absence of a new pandemic a hole is created for such movements in the next 2-3 years as those who originally were planning to relocate over 2022-25 have already done so.

In common with most other parts of New Zealand, the average size of dwellings being consented in the Hawke's Bay region has declined over the past few years. The measure sits currently at 156 square meters from 189 in 2011.



Again, in common with much of the rest of the country, this change in average dwelling size reflects a downward shift in the proportion of new builds which are standalone houses and a rise in construction of apartments, townhouses, and retirement units.

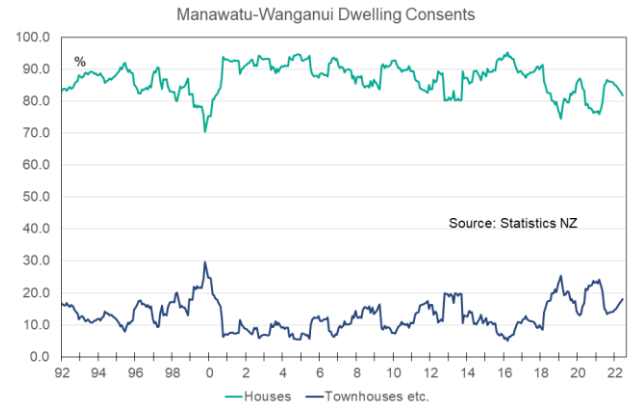


Manawatu-Wanganui

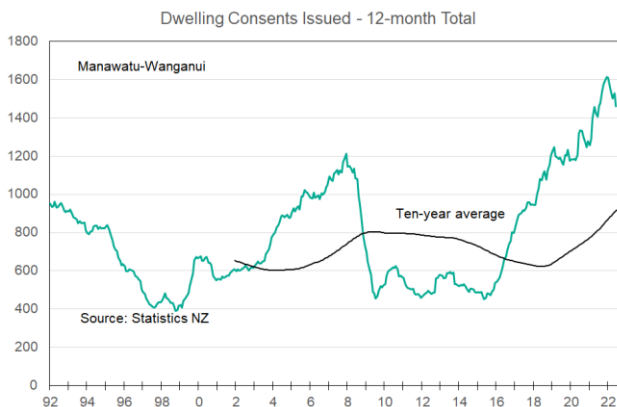
Boom in construction to ease

Average house prices have boomed in the Manawatu-Wanganui region in recent years as investors have sought out yield and low entry prices and young buyers have sought affordability. This is a development seen in previous housing cycles in New Zealand. A development also frequently seen is a logical surge in construction to provide housing for the increased numbers of people seeking property.

With land for greenfields development more readily available in the regions than in the major cities it is not surprising that house building numbers have risen strongly.

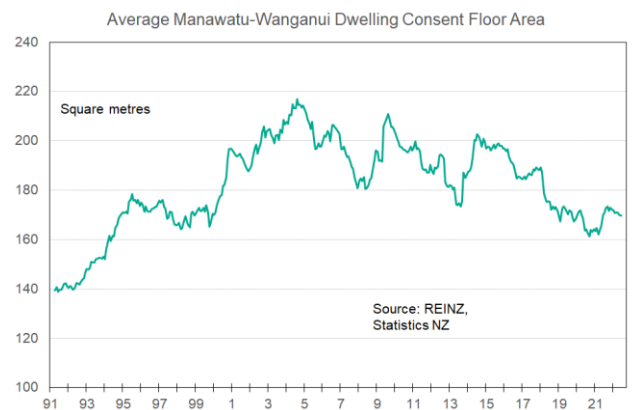


Nonetheless, the average size of a dwelling being built has declined to near 170 square meters from 190 in 2011. This illustrates to us that the average standalone house is tending to be of smaller size than a decade ago.



In the past year consents totalled just under 1,500 from 461 in 2011. This 217% rise exceeds the non-Auckland rise for all NZ of 193%.

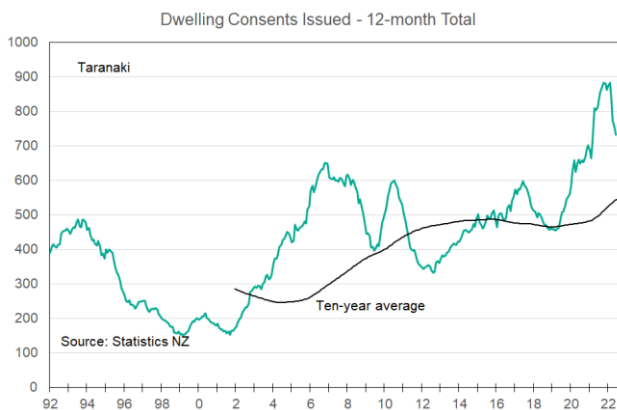
Unlike many other regions the surge in consent numbers has not involved a substantial shift away from standalone houses towards attached units such as apartments and townhouses. The following graph shows only the slightest trend decline in house consent issuance.



Taranaki

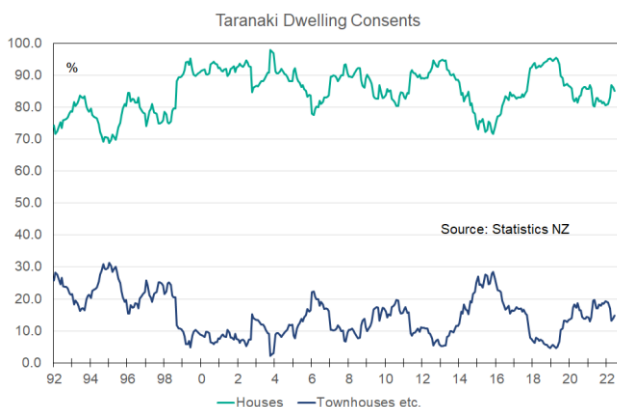
Decreasing average dwelling size

The annual number of consents issued for the construction of new dwellings in the Taranaki region rose from just 344 at the low point in 2022 to 883 at the peak late last year. The total now stands at 732 with a seasonally adjusted decline of 26% over the June quarter.

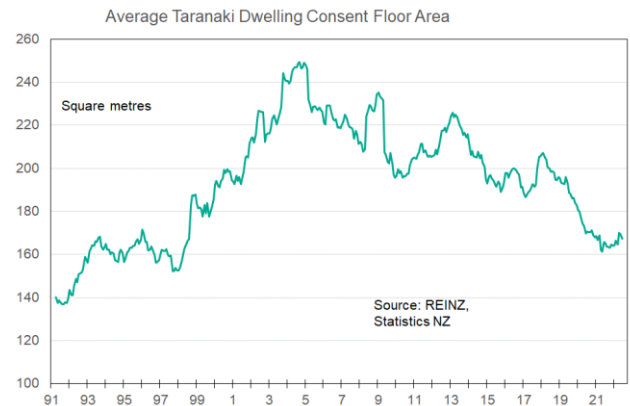


A correction in construction levels is underway with a contributing factor likely to be the relatively low population growth rate in the Taranaki region. The location appears not to have enjoyed quite the burst of internal migration as other regions have during the pandemic though clearly some movement has occurred, encouraged by the region's good relative housing affordability.

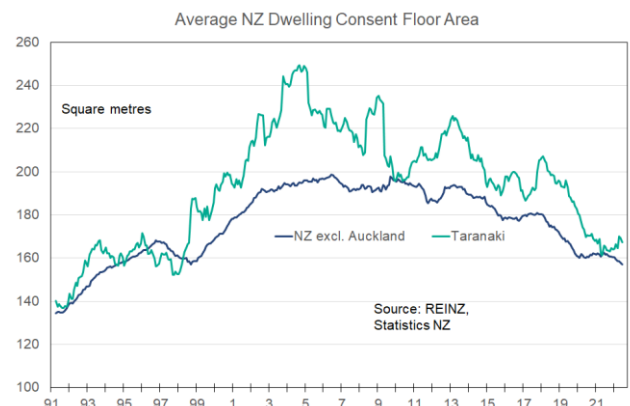
As was noted just above for the Manawatu-Wanganui region there is no clear trend towards a greater proportion of consents being for attached dwellings.



However, the average size of new dwellings being built has still been declining since 2004.



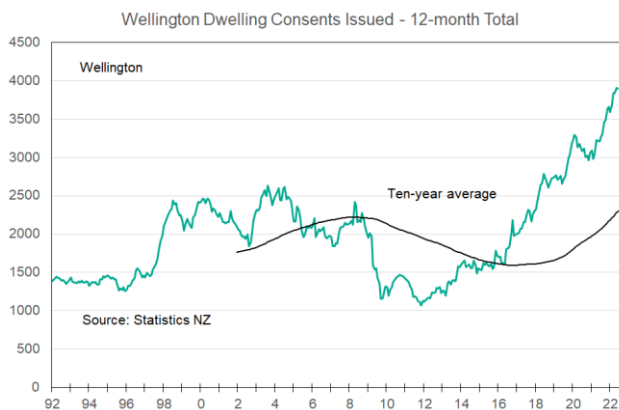
This is interesting. In 2004 the average size of a newly consented dwelling in Taranaki was the greatest of all regions at near 250 square meters compared with 194 outside of Auckland. The latest average is 167 compared with 157 excluding Auckland.



Wellington

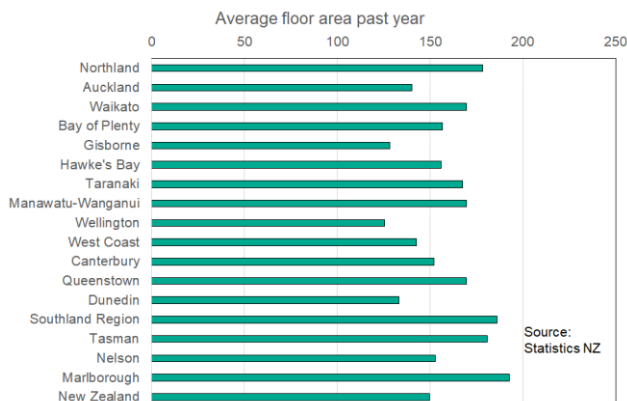
Boom in unit construction

In 2011 the number of consents issued for the construction of new dwellings in Wellington was just 1,128. The latest number is 3,892, a rise of 245% compared with a nationwide rise excluding Auckland of 193%. The rise has been quite strong and evident in the following graph.

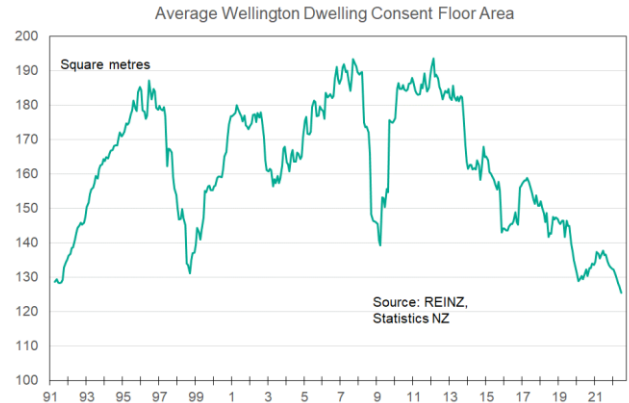


As yet a correction has not set in. However, with average house prices in the region now down some 15% from their late-2021 peak and the Wellington City area experiencing the greatest decline of all local authority areas of 17%, it is only a matter of time before this translates into falling consent numbers.

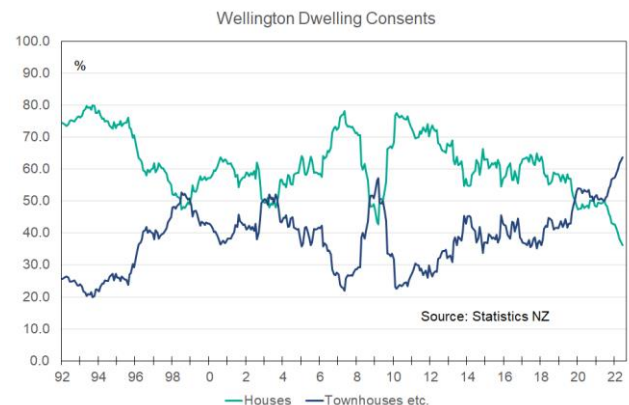
The average size of dwellings being newly consented in the Wellington region stands at the lowest for all regions at just 125 square meters compared with 157 for all of the country excluding Auckland (150 including Auckland).



There has been a downward trend in consent size underway since 2014.



Over the past year the proportion of consents being issued which are for houses has declined to be less than the proportion for attached dwellings such as apartments, townhouses, and retirement units.



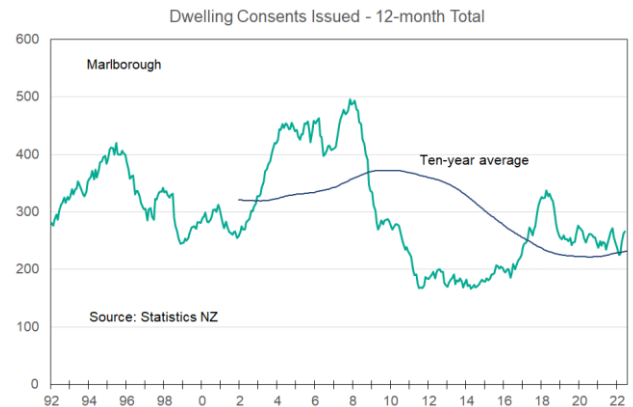
The Wellington region does not have strong population growth and the risk in the coming two years is that construction pulls back to a solid degree – especially given affordability concerns taking some young people down to Christchurch or perhaps offshore.

Nelson, Tasman, Marlborough

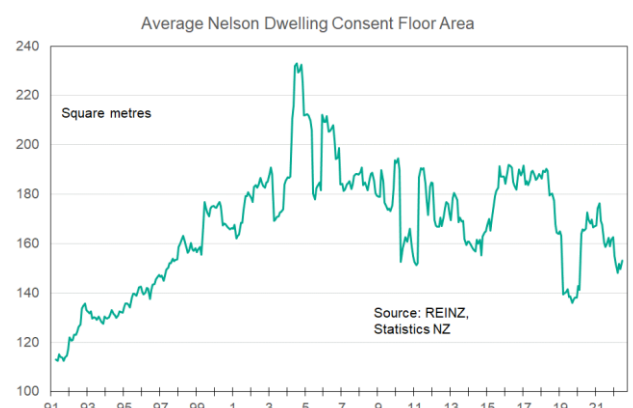
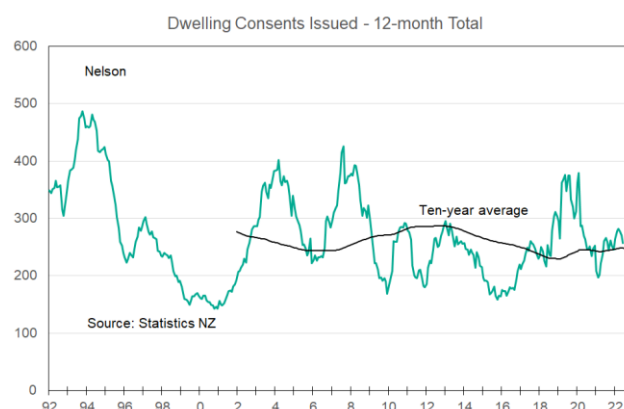
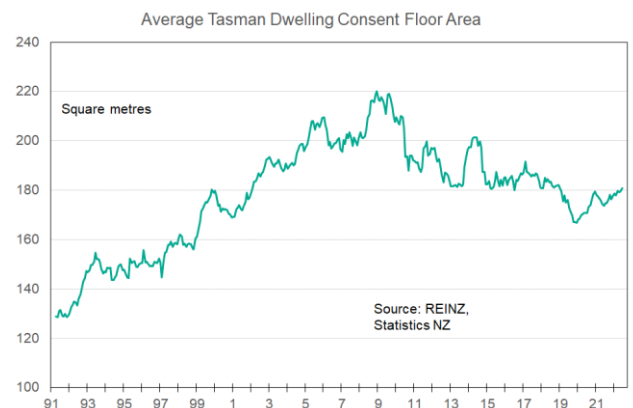
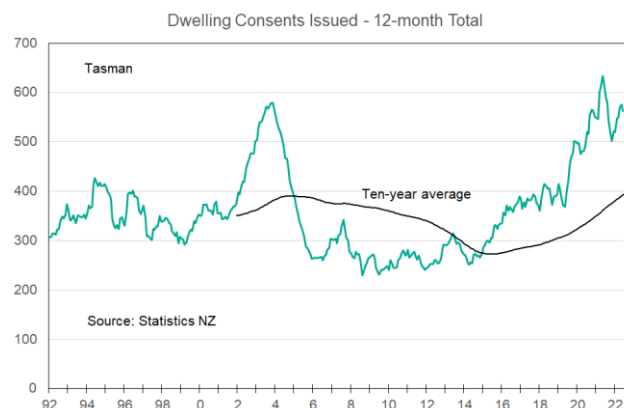
Only Nelson seeing many more townhouses

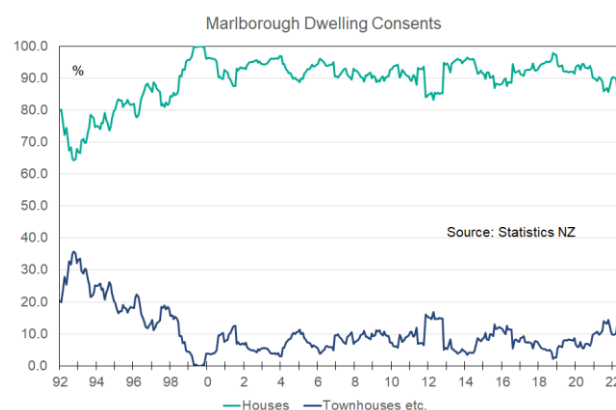
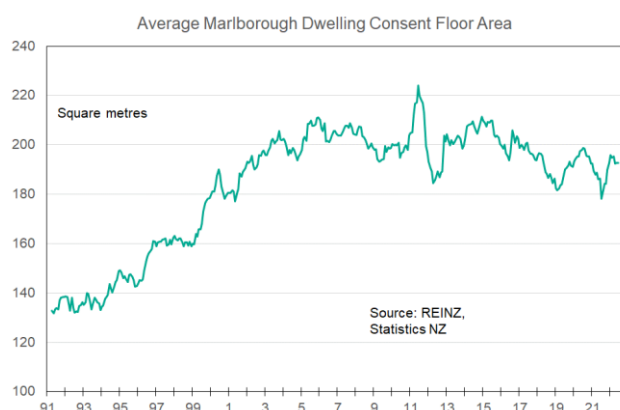
During the period of the global pandemic there has been a shift of older people out of the main cities to the regions in an earlier timeframe than they had been planning. But the top of the South Island has not received the sort of stimulus from this internal migration flow that one might have expected. We often discuss this in terms of price levels for houses being well above trend in most North Island locations but minimally so if at all in almost all South Island regions. How have things fared in the consents area?

Dwelling consents have risen to above average levels in Tasman, but not development land-constrained Nelson, or Marlborough.

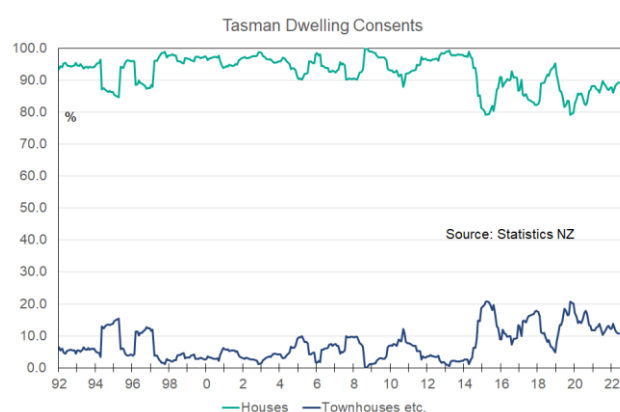
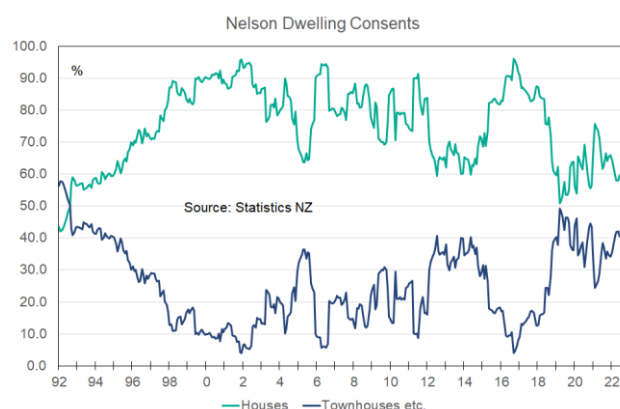


What about the average size of dwellings being newly consented? In most of the country this measure has appreciably declined in the past decade. Slight declines have occurred in Tasman and Nelson, but not in Marlborough.





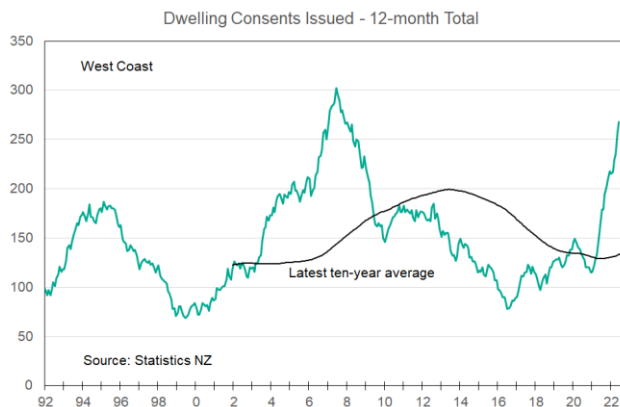
With regard to the general nationwide and especially Auckland shift away from standalone houses towards attached dwellings, the top of the South Island shows this happening uniquely in Nelson where new residential land for development is in limited supply.



West Coast

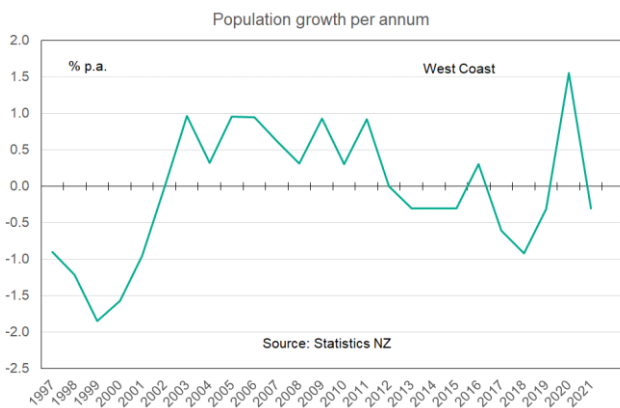
Decreasing house size

The West Coast of the South Island is a very small region (population-wise, not geographically) and we have to be careful not to over-read changes in data series which could easily lie within the normal bounds of statistical variability. With that caveat in mind, we can note that the number of consents issued for the construction of new dwellings added up to 268 in the past year.

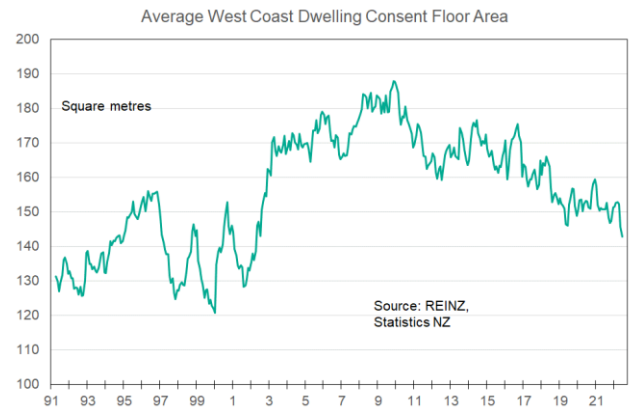


This was a small 51% rise from 177 in 2011 when issuance was at a multi-decade low for the country overall.

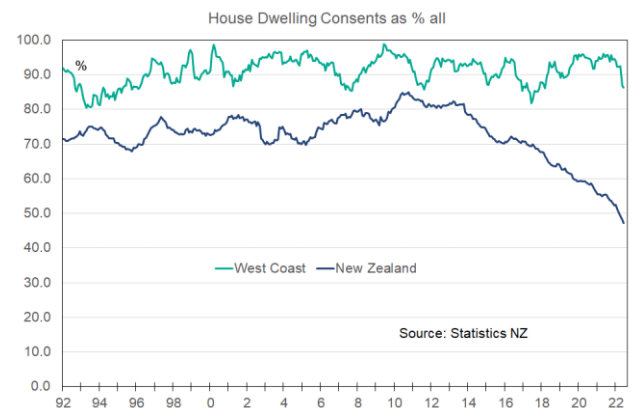
The West Coast has a shrinking population which received only a small bump from the initial internal migration effects of the global pandemic.



But the West Coast does have one trend in common with other parts of the country – a decreasing average dwelling size.



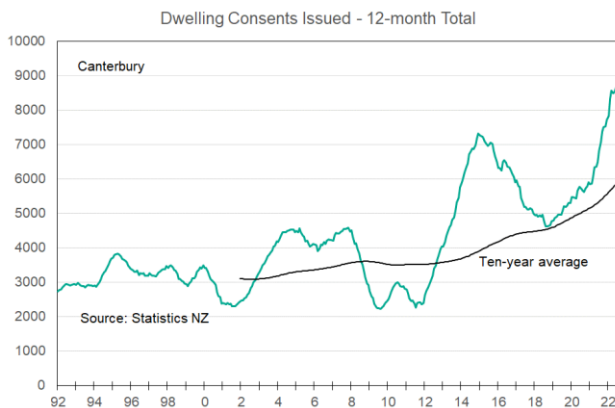
The average floor area of newly consented dwellings over the past year was 143 compared with 165 in 2011. This fall is only slightly less than the decline for all NZ excluding Auckland from 188 square meters to 157. The West Coast decline reflects a decrease in the average size of houses being built as opposed to a shift towards more townhouses and other attached dwellings being constructed.



Canterbury

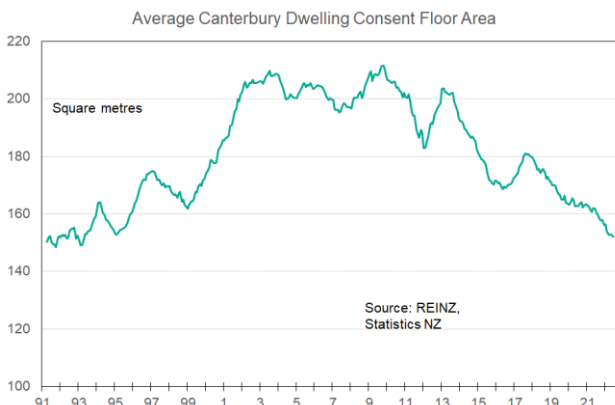
Construction correction yet to start

The annual number of dwellings consented for construction in the Canterbury region soared to a record high of 8,628 in the past year to June from 2,395 in 2011. This 260% rise exceeded the gain for all of the country excluding Auckland which was 193%.

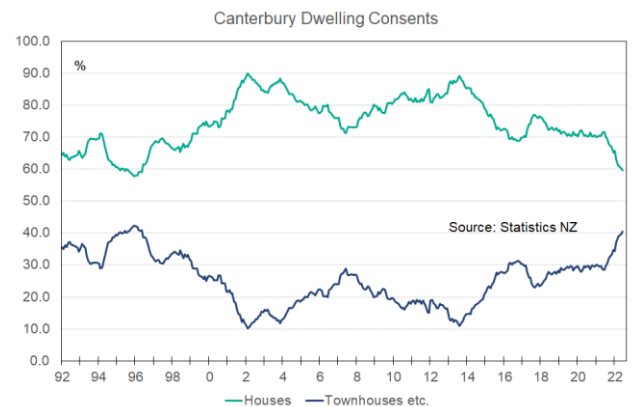


As yet a decline has yet to set in, as has happened already in some other parts of the country, where issuance surged unusually rapidly. But a pullback seems inevitable, even though the extent to which average prices will decline in Canterbury from late-2021 peaks will be less than elsewhere, because of the catch-up still underway following the effects of the 2011 earthquake.

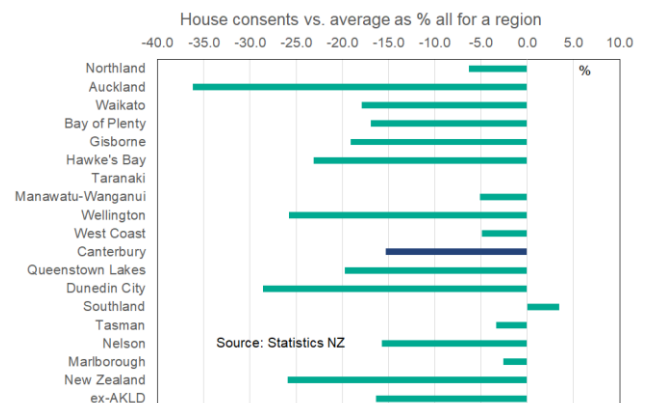
The average size of new dwellings being consented in Canterbury has trended down to 152 square meters in the past year from 188 in 2011. This decline is only slightly more than the ex-Auckland NZ shift.



The shift has been partly driven by a rise in the proportion of new consents accounted for by attached dwellings such as townhouses and apartments. But unlike Wellington and Auckland, houses still account for appreciably more than half of the consents issued in the Canterbury region.



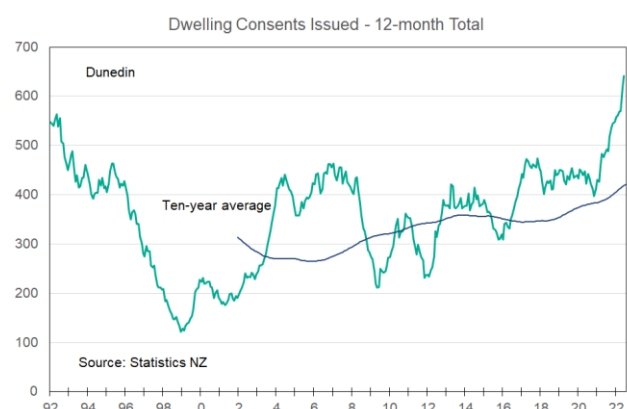
The proportion of consents accounted for by houses is running near 15% below average in Canterbury compared with 16% for the country excluding Auckland.



Dunedin City

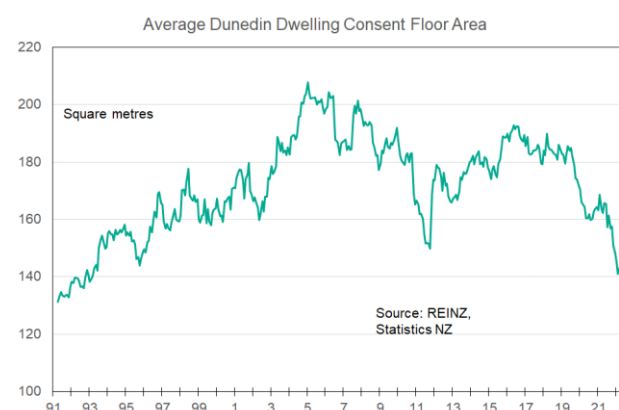
Dwelling size decline likely temporary

The number of consents issued for the construction of new dwellings in Dunedin City has increased firmly over the past year and unlike many other parts of the country there is as yet only a small sign that the surge is easing off.

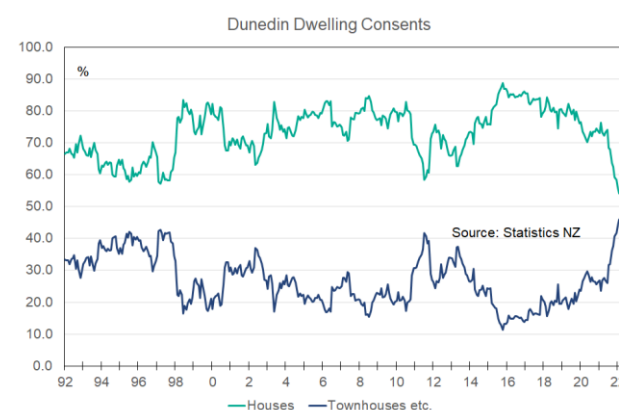


However, a reduction in issuance over the coming year is highly likely in response to not just above average interest rates but net migration outflows, absence of FOMO, and ending of the pandemic-induced acceleration of Baby Boomer plans for shifting to the regions from the three largest NZ cities.

In common with most of the rest of the country, the average size of dwellings being newly constructed in Dunedin has decreased in recent years. The latest average is 133 square meters from 174 in 2011 when consent issuance hit multi-decade lows.



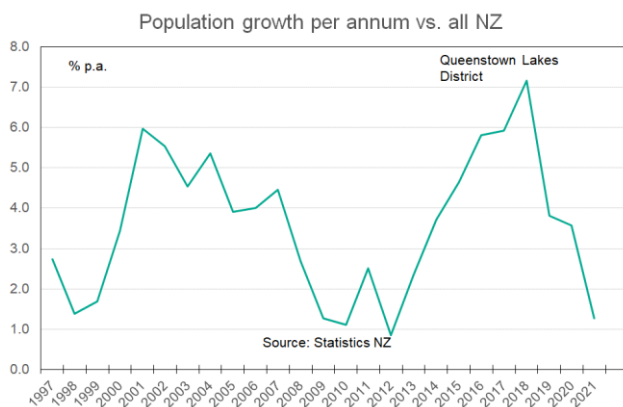
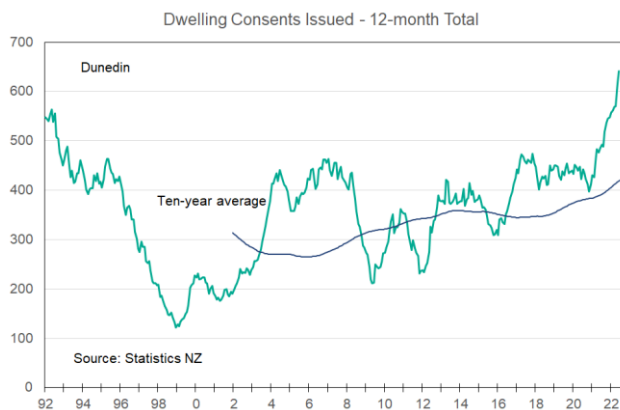
The relatively sharp decrease over the past year reflects a rise in the proportion of consents accounted for by attached dwellings to 55% from just 26% a year ago. History suggests to us that this shift is unlikely to be sustained and mainly reflects the special nature of some of the most recent development in this southern city.



Queenstown Lakes

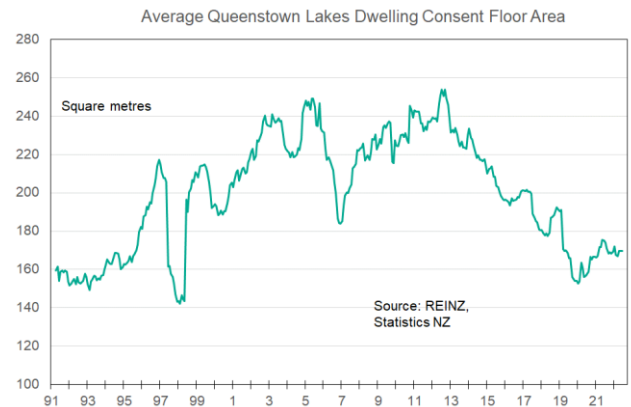
A unique island on its own

Over the past year the number of consents issued for the construction of new dwellings in the Queenstown Lakes region has risen 29% to a record 1,359 from just 314 in 2011. Some high profile large subdivisions are undergoing development in the region as population growth has continued at rates above the NZ average for a number of years.

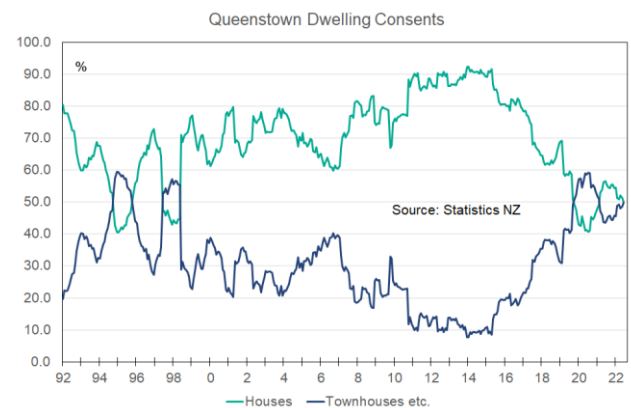


The extent of this superior population growth has however slowed noticeably since 2018 and this has happened in spite of the shift of some older (and younger) people to the regions during the pandemic years. Of relevance recently has of course been the absence of foreign tourists so vital to the region's economy. Their return may see superior population growth strengthen and for that reason we may not see the same easing of consent issuance over the coming year as is likely to occur in much of the rest of the country.

The average size of a dwelling consented for construction in the Queenstown Lakes region has been trending down since 2012.



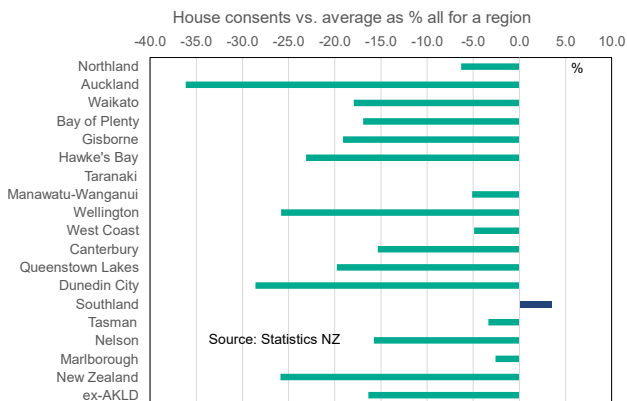
To a great degree this reflects the shift in construction away from standalone houses towards attached dwellings such as apartments and townhouses.



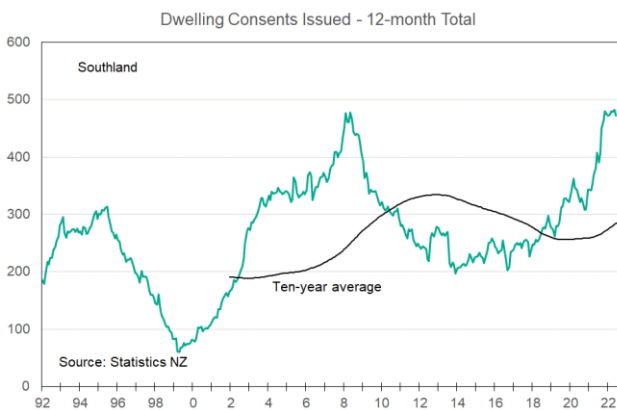
Southland

A staunch economy

Southland is a unique region. Over the past year it is the only region to experience a proportion of consents which are for standalone houses that is above the long-term average.

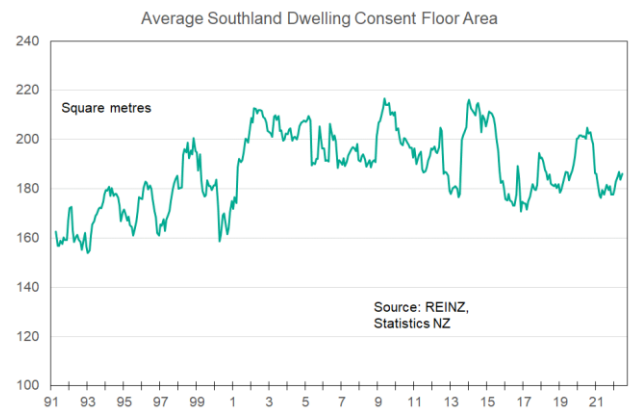


The total number of new dwelling consents stands at 472 which is 16% ahead of a year ago and 90% higher than in 2011.

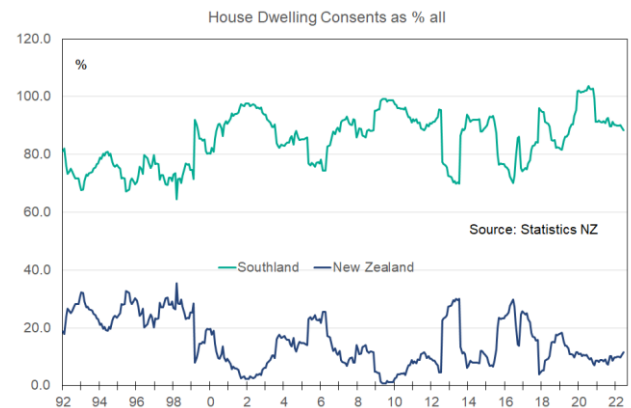


This 90% gain from 11 years ago is the lowest for all regions excluding Gisborne and the top of the South Island.

The average floor area of newly consented dwellings in the Southland region is displaying no trend change.



This partly reflects the absence of any trend rise in the proportion of consents accounted for by apartments, townhouses, and retirement units. Only the West Coast has a similar profile.



The Southland economy is well supported by the strong rural hinterland, the coming return of international visitors, and the apparent determination of the smelter's owners to keep their facility up and running beyond 2024. But population growth is almost always slower than for NZ overall and this dynamic is likely to keep house construction at generally subdued levels in coming years despite the surge attributable partly to the pandemic.

This publication is written by Tony Alexander, independent economist. You can contact me via LinkedIn or email tony@tonyalexander.nz

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