

# **Housing Stock and Housing Demand**

## **Tauranga City**

**December 2012**

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## 1. Executive Summary

There are a number of significant issues with the housing stock in Tauranga City.

- Declining affordability due to less housing stock in the less than \$400,000 bracket.
- Housing type not reflective of the changing demographic profile – with insufficient new supply in the one and two bedroom market.
- Housing supply and section size not reflective of affordability profile in Tauranga.
- Land values increasing significantly since 1997 significantly impacting on affordability. Land values since 2009 has reduced which will reduce the pressure on affordability but not to a significant effect.
- There is sufficient zoned and serviced residential land supply.

These issues are complex particularly given Tauranga City Council's fiscal position, and the extent of growth related debt towards the end of the current Ten Year Plan. Please refer to the separate report Growth Management : Financial Strategy Responses.

## 2. Background

The purpose of this "Housing Stock and Housing Demand" report is to provide a stocktake of housing and demographic trends, to support this Council taking a view on what, if any, role it has in future policy.

References in the report to capital value are capital value at 2012. (The Tauranga City area revaluation occurs on a three yearly basis with the most recent in 2012).

The methodology for this work is contained in TCC doc no. 5913818. Information is based on 2006 Census information where this the source data and this report will need to be updated when the 2013 Census information becomes available in 2014.

A report on Growth Management and Financial Strategy Responses is available TCC docs re 5911387.

## 3. Housing Affordability Relative to Household Income

- ***64% of households in Tauranga have a household income of \$70,000 or less.***
- ***A standard affordability benchmark is: households can afford to spend 30% - 35% of total gross income on rent or mortgage.***
- ***A household with annual gross income of \$70,000 would need \$33,000 deposit to buy a \$400,000 home.***

One measure of affordability is that a household should not have to spend more than 30% of its income on housing mortgage repayments or rent. This is a good indicator for lower income households, which need the other 70% of income for basics such as food and travel, taxes and other family costs.<sup>1</sup>

The Queenstown Lakes Community Housing Trust (established to facilitate affordable housing for first home buyers) uses the same 30% measure noting that it can go to 35% in

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<sup>1</sup> "Where is Housing Affordability Going" by Ian Page – BRANZ Economics Manager

some cases<sup>2</sup>. Applicants are eligible if the household income does not exceed 140% of the area Median Income. In Tauranga 140% of the Area Median Income is \$74,000 (based on 2006 census).

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<sup>2</sup> Queenstown Lakes Community Housing Trust "Applicant Eligibility Criteria for Affordable and Community Housing".

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**Table 1 : Income (Household) by Household Composition, 2006 Census**

	\$20,000 or Less	\$20,001 - \$30,000	\$30,001 - \$50,000	\$50,001 - \$70,000	\$70,001 - \$100,000	\$100,001 or More	Not Stated	Total
Couple Without Children	693	2469	2853	2379	1971	1728	1236	13329
Couple With Child(ren)	237	399	1602	2199	2361	2193	1416	10407
One Parent With Child(ren)	1407	1158	1149	411	171	102	915	5313
Other Multiperson Household	81	153	339	285	276	201	459	1794
One-Person Household	4191	1581	1674	675	243	150	897	9411
Unidentified							513	513
<b>Total Household Composition</b>	<b>6609</b>	<b>5760</b>	<b>7617</b>	<b>5949</b>	<b>5022</b>	<b>4374</b>	<b>5436</b>	<b>40767</b>
% of total households	16%	14%	19%	15%	12%	11%	13%	100%
Cumulative % Total Households	16%	30%	49%	64%	76%	87%	100%	
Couple or person with children	1644	1557	2751	2610	2532	2295	2331	15720
% of total households with children	10%	10%	18%	17%	16%	15%	15%	100%
Cumulative % Households with children	10%	20%	38%	54%	71%	85%	100%	

Table 2 shows the amount of deposit required to purchase a house within the standard constraint that only 30% - 35% of household income should be spent on housing costs.<sup>3</sup>

Household Income	50,000	70,000	70,000	70,000	90,000	90,000
House price	300,000	300,000	350,000	400,000	400,000	500,000
Maximum Loan	190,000	267,000	267,000	267,000	343,000	343,000
Deposit Required	110,000	33,000	83,000	133,000	57,000	157,000
Monthly payment	1,333	1,867	1,867	1,867	2,400	2,400
% of income on housing	32%	32%	32%	32%	32%	32%
Assumes interest rate of 7.5% & 30 year mortgage term						

Each year a Demographia International Housing Affordability Survey is conducted. It covers 325 markets in Australia, Canada, Ireland, New Zealand and the United Kingdom.<sup>4</sup> The survey uses the "Median House Price to Median Household Income Multiple" to rate housing affordability.

The Table below shows the rating and the number of markets within each rating group for the 2011 survey.

Rating	Median Multiple	No. of Markets	
		2009	2012
Affordable	3.0 or less	87	128
Moderately Unaffordable	3.1 to 4.0	74	87
Seriously Unaffordable	4.1 to 5.0	40	39
Severely Unaffordable	5.1 & Over	64	71

Tauranga / Western Bay of Plenty was assessed in the International Housing Affordability Survey as "severely unaffordable" with a rating of 6.6. Tauranga/Western WBOP housing market was the least affordable of the New Zealand cities surveyed in 2009 but has improved in relative terms to be third in 2012 behind Auckland and Christchurch. Tauranga/Western Bay is still in the severely unaffordable rating category.

The reasons for this improvement are:

-a significant decrease in the median house to \$334,100 from \$341,700 which is a 2% drop;

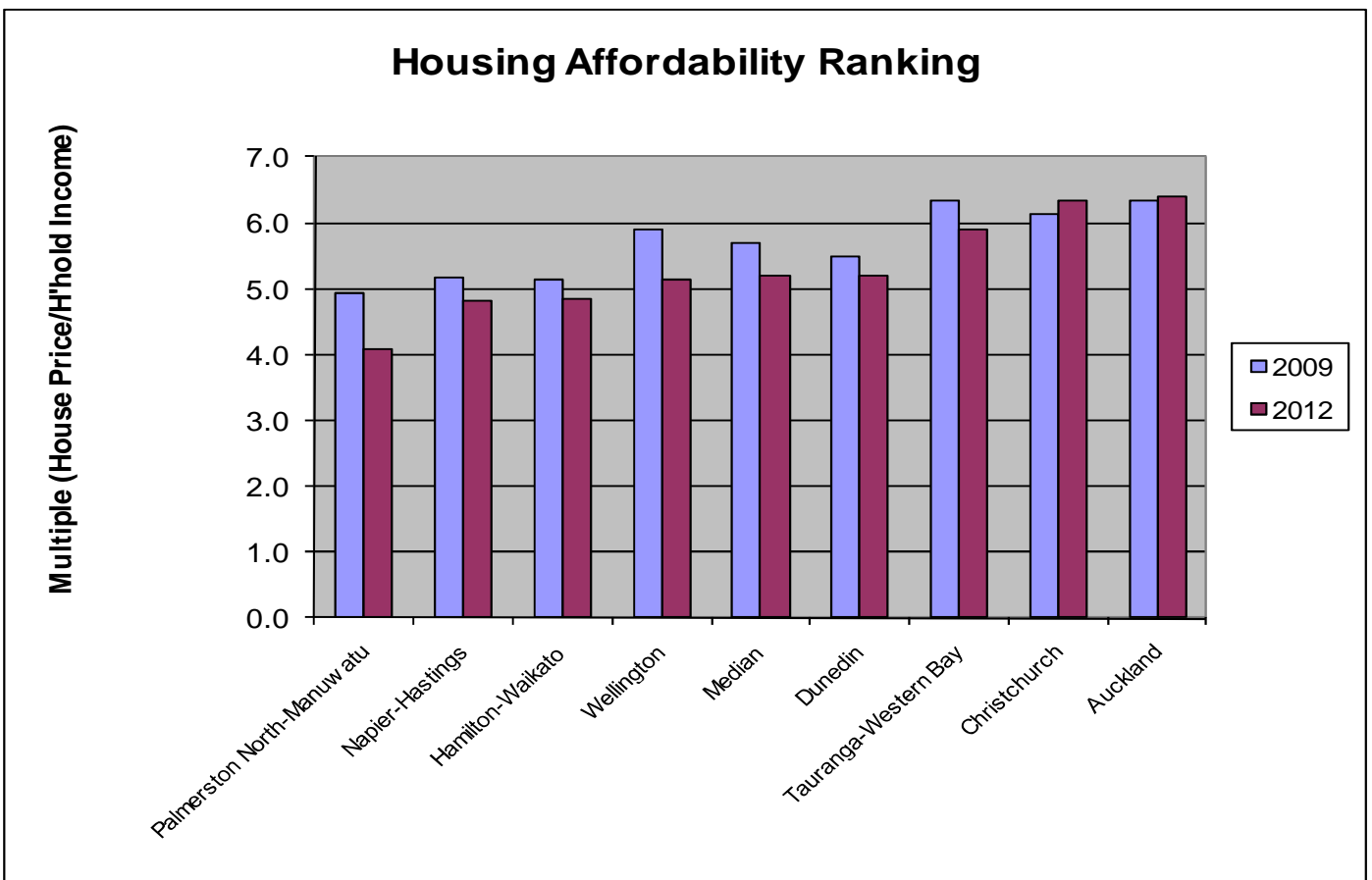
-an increase in the median income from \$52,100 to \$56,600 which is a 8% increase.

<sup>3</sup> These figures have been confirmed by the TCC Treasury Manager with banking institutions.

<sup>4</sup> 5<sup>th</sup> Annual Demographic International Housing Affordability Survey 2009, Ratings for Metropolitan Markets.

Table 4 : Housing Affordability Ranking

	2012			2009				
	Ranking	Median House Price	Median Household Income	Median Multiple	Ranking	Median House Price		
Auckland	299	464,400	72,500	6.4	239	427,500	67,300	6.4
Christchurch	298	354,600	55,900	6.3	235	313,300	51,100	6.1
Dunedin	265	249,700	47,900	5.2	216	249,500	45,500	5.5
Hamilton-Waikato	241	303,900	62,700	4.8	207	301,000	58,400	5.2
Napier-Hastings	241	265,300	55,200	4.8	207	272,900	52,700	5.2
Palmerston North-Manuwatu	216	231,700	56,800	4.1	195	250,000	50,600	4.9
Tauranga-Western Bay	290	334,100	56,600	5.9	239	241,700	52,100	6.6
Wellington	255	370,000	72,000	5.1	227	373,000	63,300	5.9
Median				5.2				5.7





#### 4. Housing Stock in Tauranga City

- **62% of the existing properties have a capital value of less than \$400,000.**
- **69% of the new housing stock constructed in the last 5 years to 2012 is greater than \$400,000**
- **In the last 5 years the % of new houses constructed in the less than \$400,000 range has decreased by 16% compared to the prior 5 year period (based on 2012 valuations).**
- **78% of housing sales in the last 3 years to 2012 is housing more than 9 years old.**

The proportion of new housing stock in Tauranga in the less than \$400,000 group is decreasing (6% decrease in the last 8 years). This is occurring through:

- new housing stock is predominantly in the greater than \$400,000 price bracket.
- some of the existing less than \$400,000 stock being removed for redevelopment.

Over time a decrease in houses in the less than \$400,000 bracket will further negatively impact on the supply/demand equation and push the prices of those houses higher.

Table 5 below shows house sales in Tauranga City over the last three years by capital value and age of dwelling. Note: 63% of sales are less than \$400,000 and 68% were constructed prior to 2000.

<b>Table 5</b>					
Capital Value Group	Pre 1970	1970-1989	1990-1999	2000+	
\$0-\$300000	526	1040	463	210	2239
	23%	46%	21%	9%	29%
\$300,000-\$400,000	413	683	751	841	2688
	15%	25%	28%	31%	34%
\$400,000-\$500,000	170	245	342	699	1456
	12%	17%	23%	48%	19%
\$500,000-\$1M	191	192	237	651	1271
	15%	15%	19%	51%	16%
\$1M-\$1.5M	26	17	9	40	92
	28%	18%	10%	43%	1%
\$1.5M-\$2M	5	8	1	8	22
	23%	36%	5%	36%	0%
over \$2M	10	1	4	9	24
	42%	4%	17%	38%	0%
	1341	2186	1807	2458	7792
	17%	28%	23%	32%	100%

Table 6 shows the number of properties in the City by capital value.

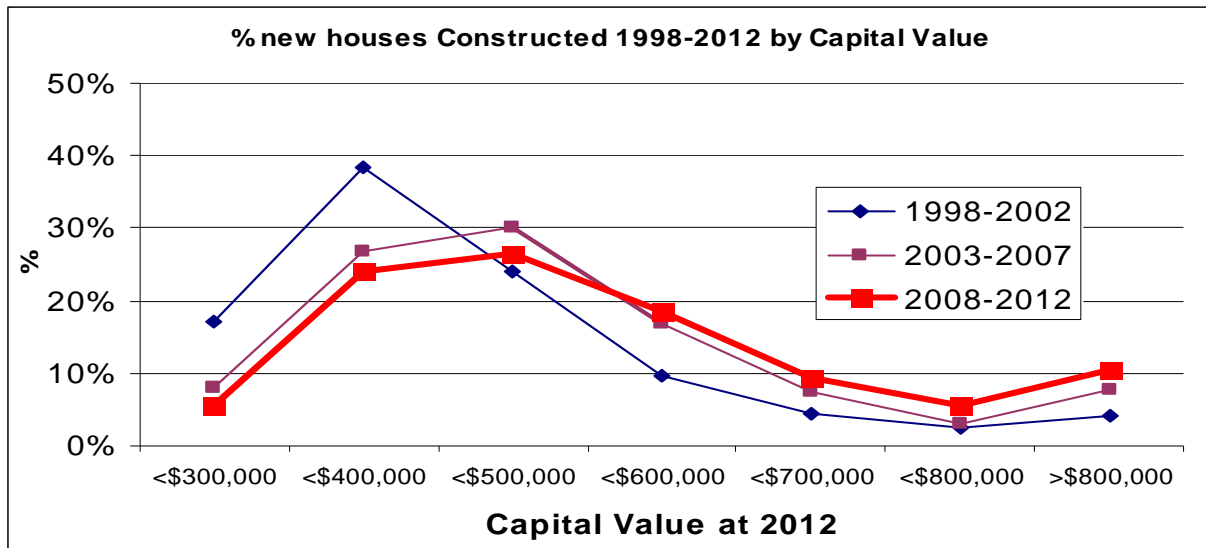
Capital Value Group	No of Properties 2012	2012	No of Properties 2009	2009
Under \$300,000	14,015	32%	13,503	32%
\$300,000 to \$400,000	12,909	30%	12,825	31%
\$400,000 to \$500,000	7,697	18%	7,341	18%
\$500,000 to \$600,000	3,739	9%	3,371	9%
\$600,000 to \$700,000	1,886	4%	Included below	Included below
\$700,000 to \$800,000	1,032	2%	2,500	6%
Over \$800,000	2,477	6%	2,180	6%
	43,755		41,720	

Graph 1 shows the % of houses constructed over the 5 year periods 1998 – 2002, 2003 – 2007 and 2008 – 2012 in each capital value grouping.

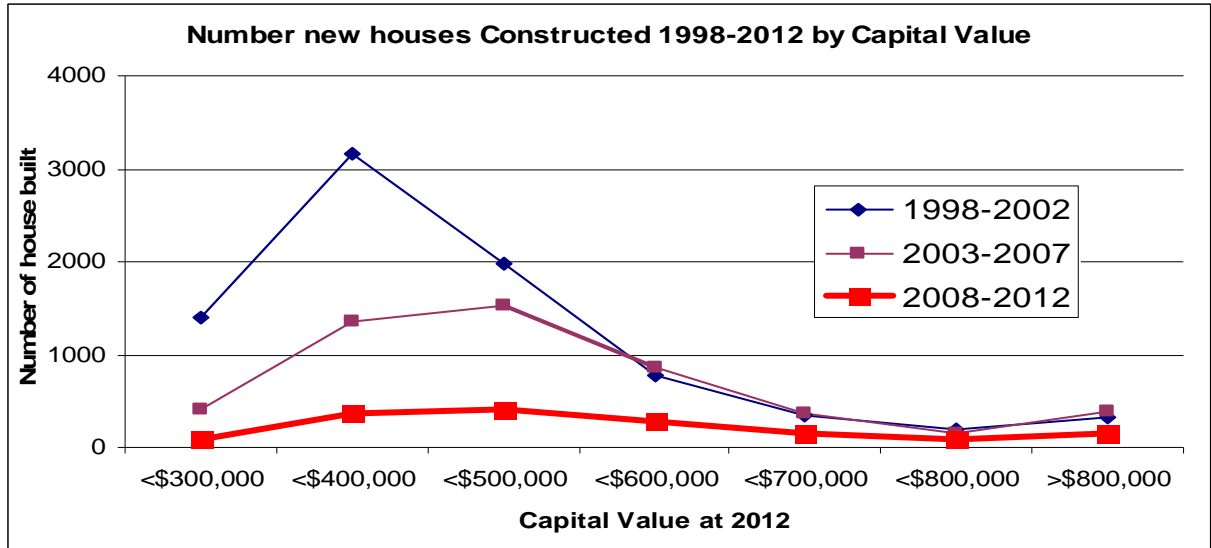
Graph 2 shows the number of houses constructed over the 5 year periods 1998 – 2002, 2003 - 2007 and 2008-2012 in each capital value grouping.

Graph 1 shows that there has been a further increase in the % of new houses in the greater than \$400,000 grouping in the last 5 years compared to the prior 5 year period. Graph 2 shows that the number of houses built in the last 5 years has significantly reduced in all groupings.

**Graph 1 : % New Houses Constructed 1998 – 2012**

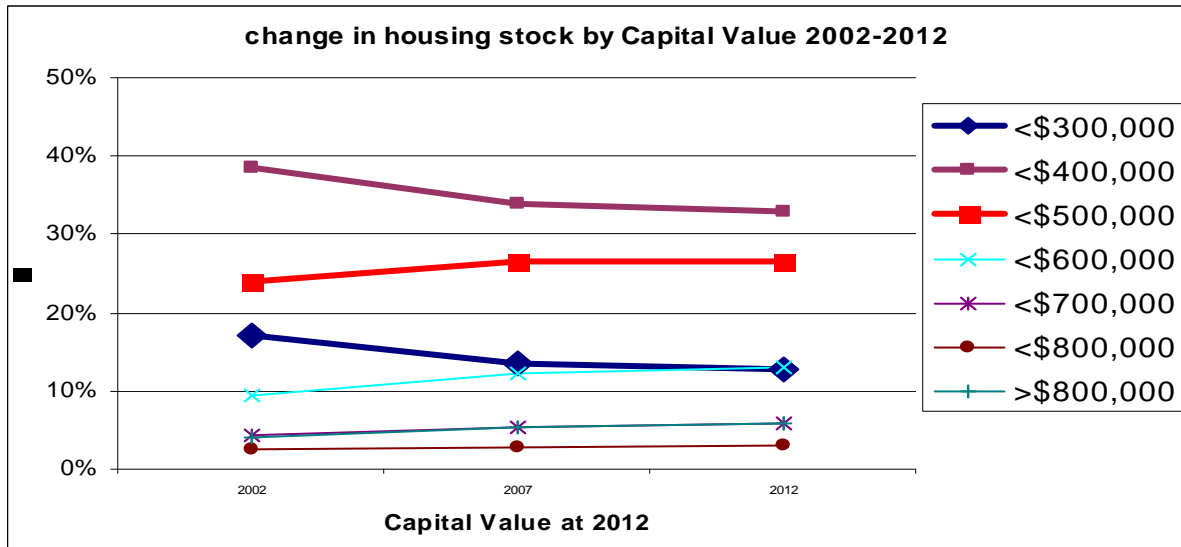


**Graph 2 : Number Houses Constructed 1998 – 2012**



Graph 3 shows that over the 10 year period from 2002 to 2012, the proportion of houses in the less than \$300,000 group has decreased and the proportion in the greater than \$500,000 group has increased. This means that over time the affordability of housing stock in Tauranga City is continuing to decrease. The 2008-2012 period has seen a significant reduction in the volume of new houses constructed but the trend is still exactly the same as 2003-2007 and 1998-2002.

**Graph 3 : Housing Stock by Capital Value**



## 5. Section Sizes of Existing Tauranga Housing Stock

- **30% of section sizes are less than 400 square metres**
- **There is a direct relationship between average section size and capital value – on average higher capital values have larger section sizes.**
- **The average section size in the city is decreasing over time.**

There is a range of section size choice in the city. 30% of the city choose to live on sections with less than 400 square metres. This is likely to be due to factors such as affordability, security, ease of maintenance, and location.

Smartgrowth aims for a long term target of 15 lots per hectare, which at 2026 would equate to an average section size of approximately 470 square metres.

Table 7 below is a scenario provided by Neil Gray of a mix of lot sizes and housing types within a neighbourhood which would achieve the required 15 lots per hectare.

	Saleable Area - Sq m	Density - Lots p/ha	Total lots in 10 ha	% in development
Reserves				7%
Premium Lot	810	10	29	30%
Standard Lot	600	13	30	23%
Compressed Std Lot	400	18	35	20%
Compact Lot	300	23	23	10%
Townhouse / Duplex	200	35	35	10%

Graph 4 shows the average section size for each capital value grouping. This demonstrates that there is a direct relationship between section size and property value (and therefore affordability).

**Graph 4 : Average Section Size by Capital Value**

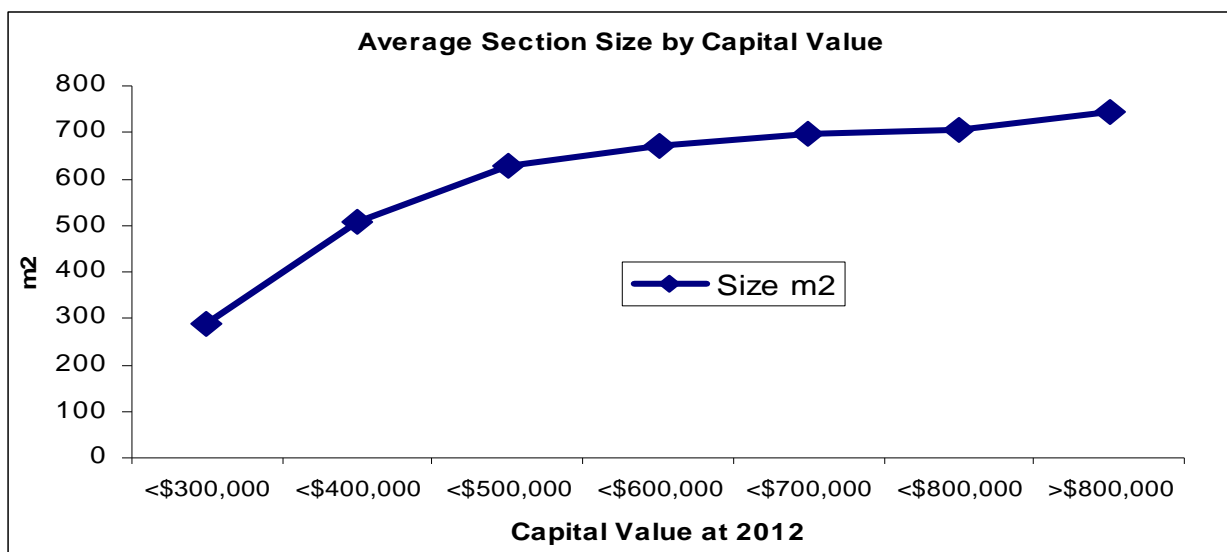


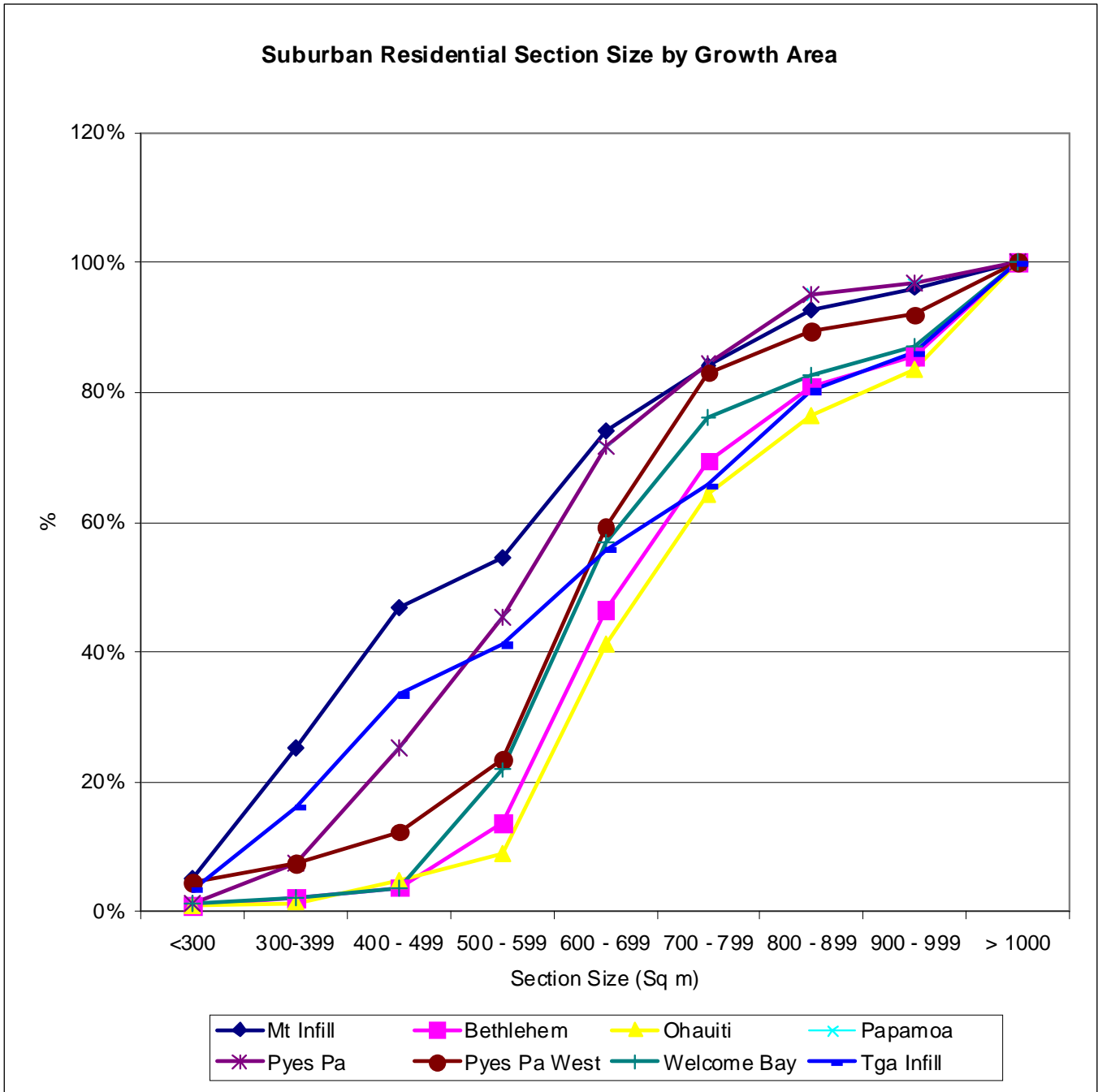
Table 8 shows the proportion of housing stock in section size groupings by residential zone. It should be noted that due to the topography of Tauranga some sites will include land which is not suitable for residential use or subdivision.

**Table 8 : Section Size by Residential Zone**

Section Size	City Living	High Density	Suburban Residential	Total City	City Cum %	Suburban %	Sub. Cum %
< 300	20%	64%	3%	4%	4%	3%	3%
300 - 399	13%	10%	11%	11%	15%	11%	14%
400 - 499	11%	5%	16%	15%	31%	16%	30%
500 - 599	13%	5%	11%	11%	41%	11%	41%
600 - 699	6%	2%	21%	20%	62%	21%	61%
700 - 799	2%	4%	12%	12%	74%	12%	74%
800 - 899	12%	6%	12%	12%	86%	12%	86%
900 - 999	4%	0%	4%	4%	90%	4%	90%
> 1000	20%	4%	10%	10%	100%	10%	100%
Total	100%	100%	100%	100%		100%	
Total Lots	321	651	36647	37619			

Graph 5 shows the proportion of suburban residential sections (not High Density or City Living) in section size groupings by urban growth area. The Greenfield developments of the 1990's (Bethlehem and Pyes Pa) have, on average, larger sections sizes than the more recent Greenfield (Pyes Pa West) and infill areas.

**Graph 5 : Suburban Residential Section Size by Capital Value**

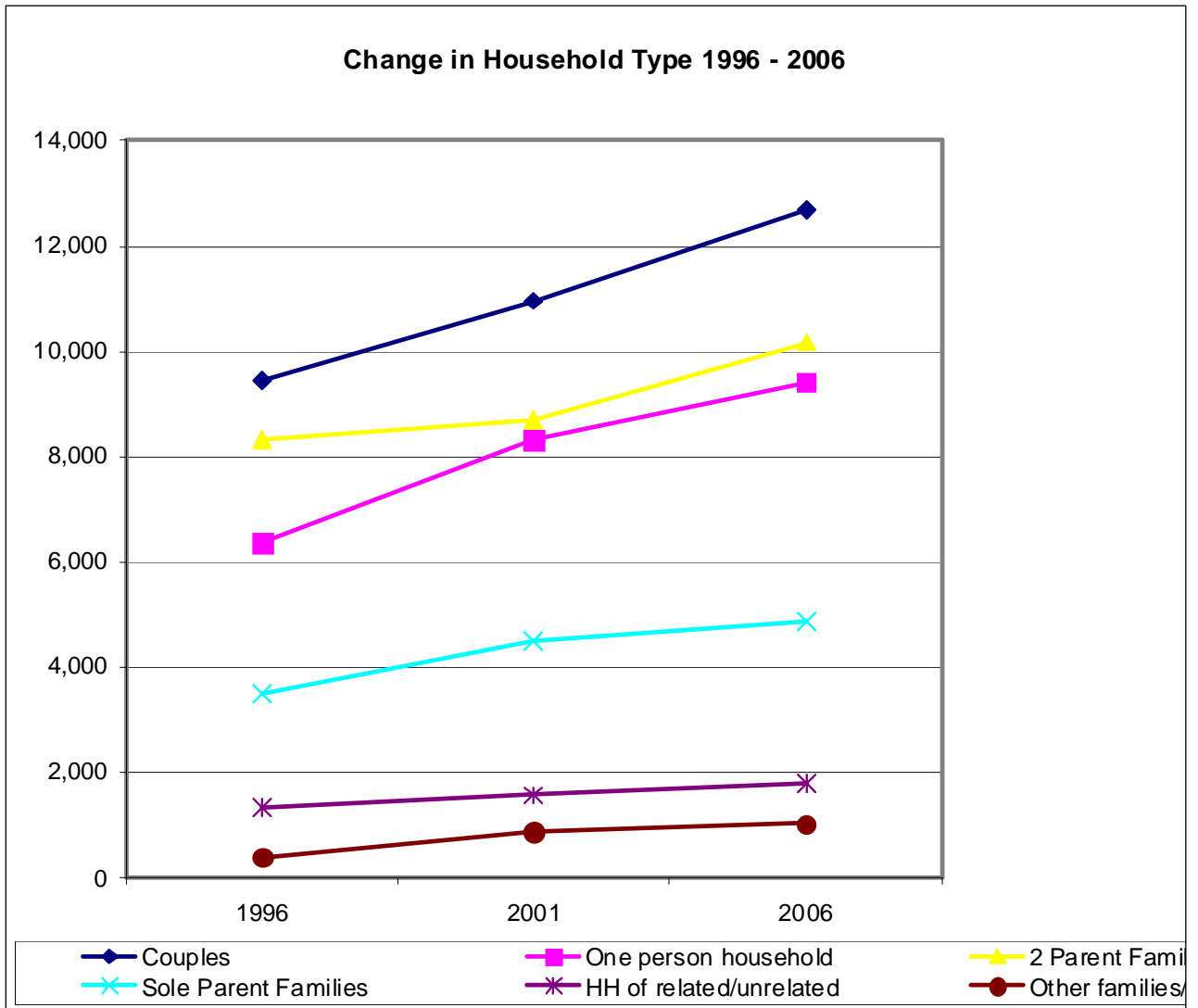


## 6. Demographic Trends

- The number of single and two person households is increasing faster than other household types
- The number of single and two person households is projected to significantly increase over the next 50 year period.

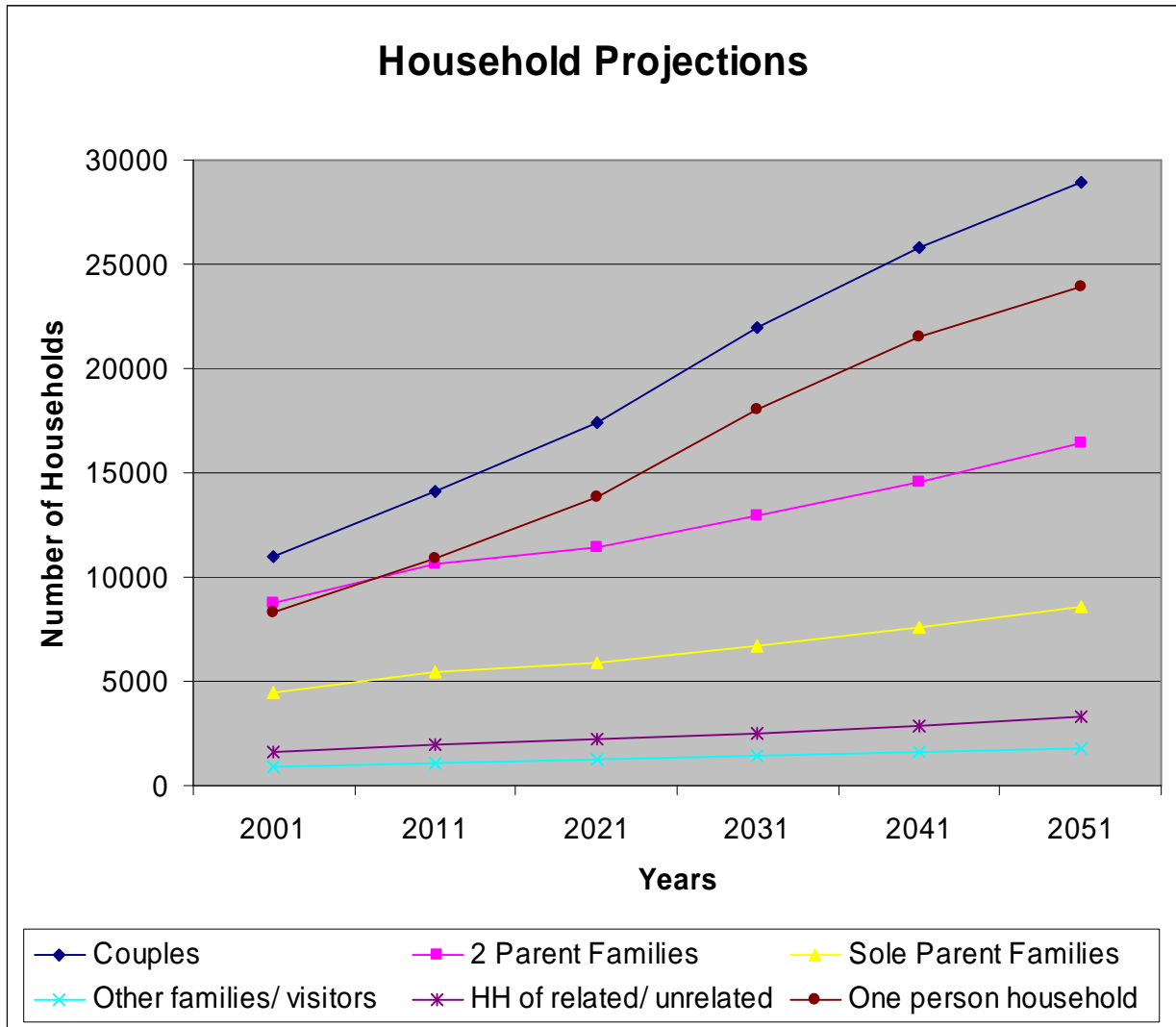
Graph 6 shows the increase in the number of households by household type over the period 1996 – 2006. There has been a significantly greater increase in couple and one person households than other household types.

**Graph 6 : Change in Household Type 1996 – 2006 (latest available Census information has been used)**



**Graph 7: Household Projections to 2051**

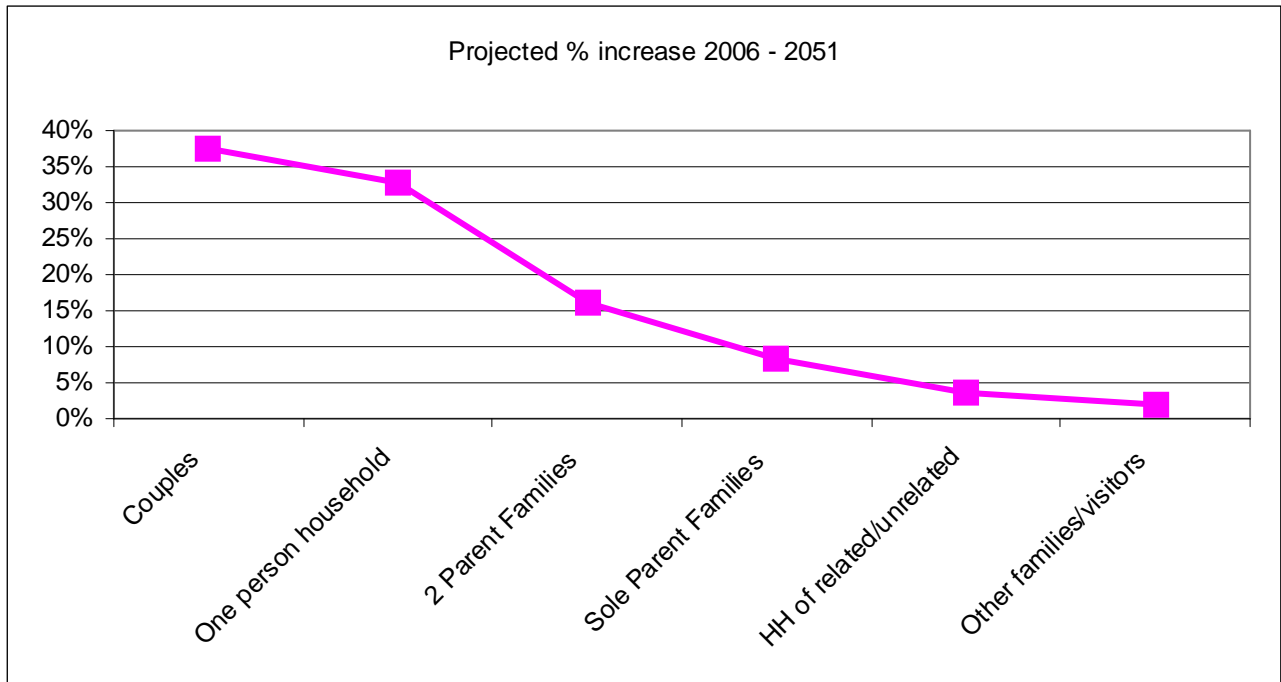
Graph 7 shows the SmartGrowth projections to 2051 by household type. This projects that the trend from 1996 to 2006 (graph 6) will continue with significant increases in the number of 1 and 2 person households.





Graph 8 shows the projections to 2051 as a % of total increase by household type.

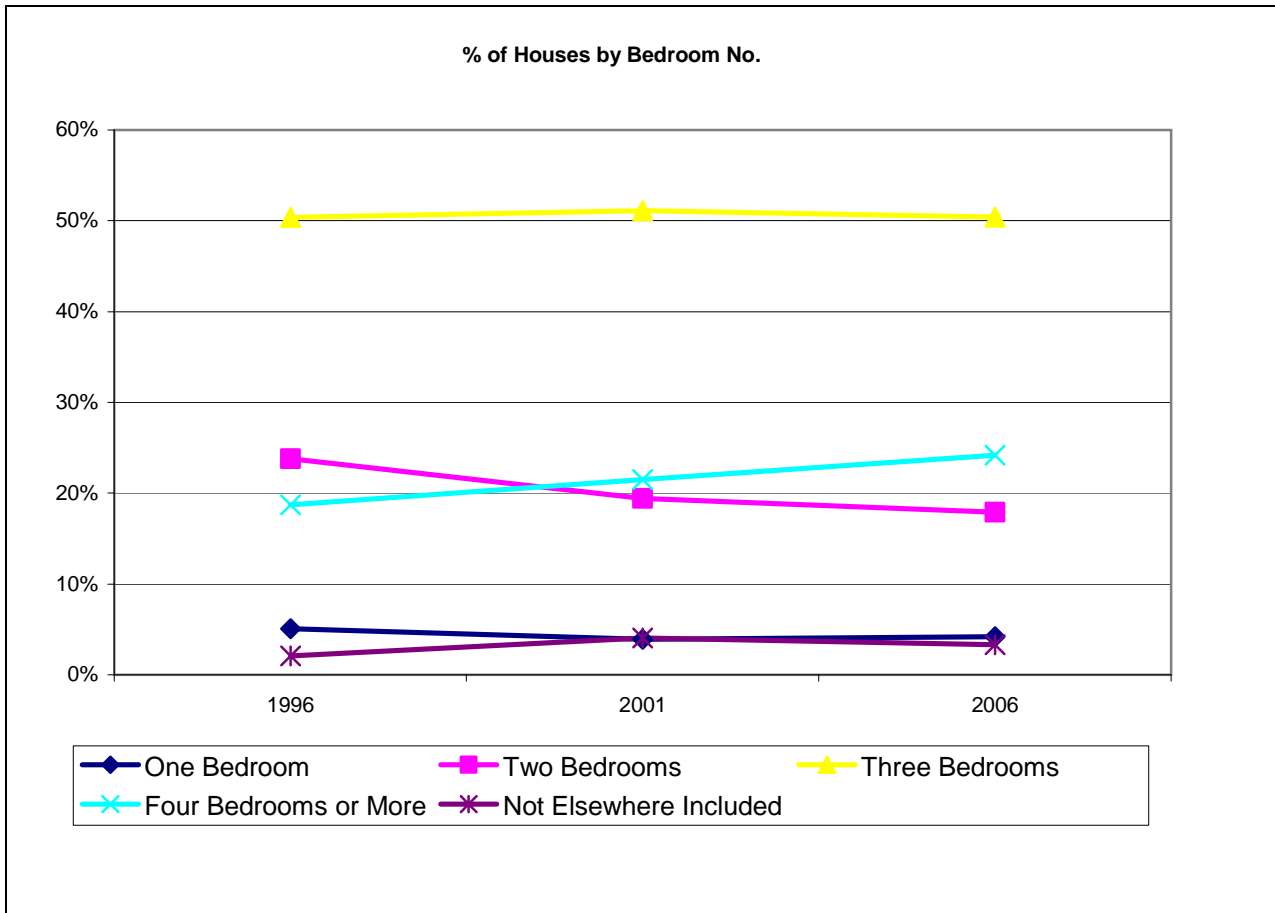
**Graph 8: Projected Increase in Household Types by % to 2051**



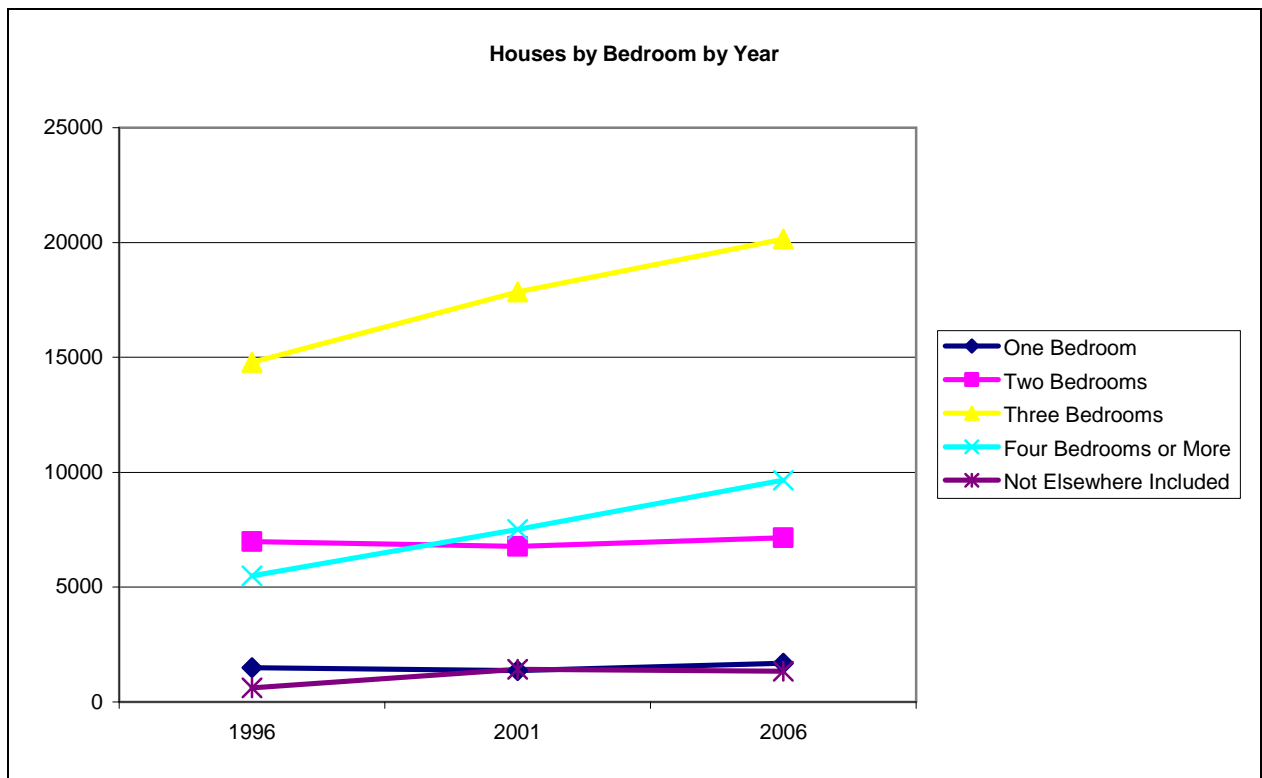
## 7. Type of Housing Stock

- The percentage of two bedroom houses is decreasing, and the number of four bedroom plus homes is increasing, despite a significant increase in one and two person households.

**Graph 9 : Percentage of houses by bedroom numbers**



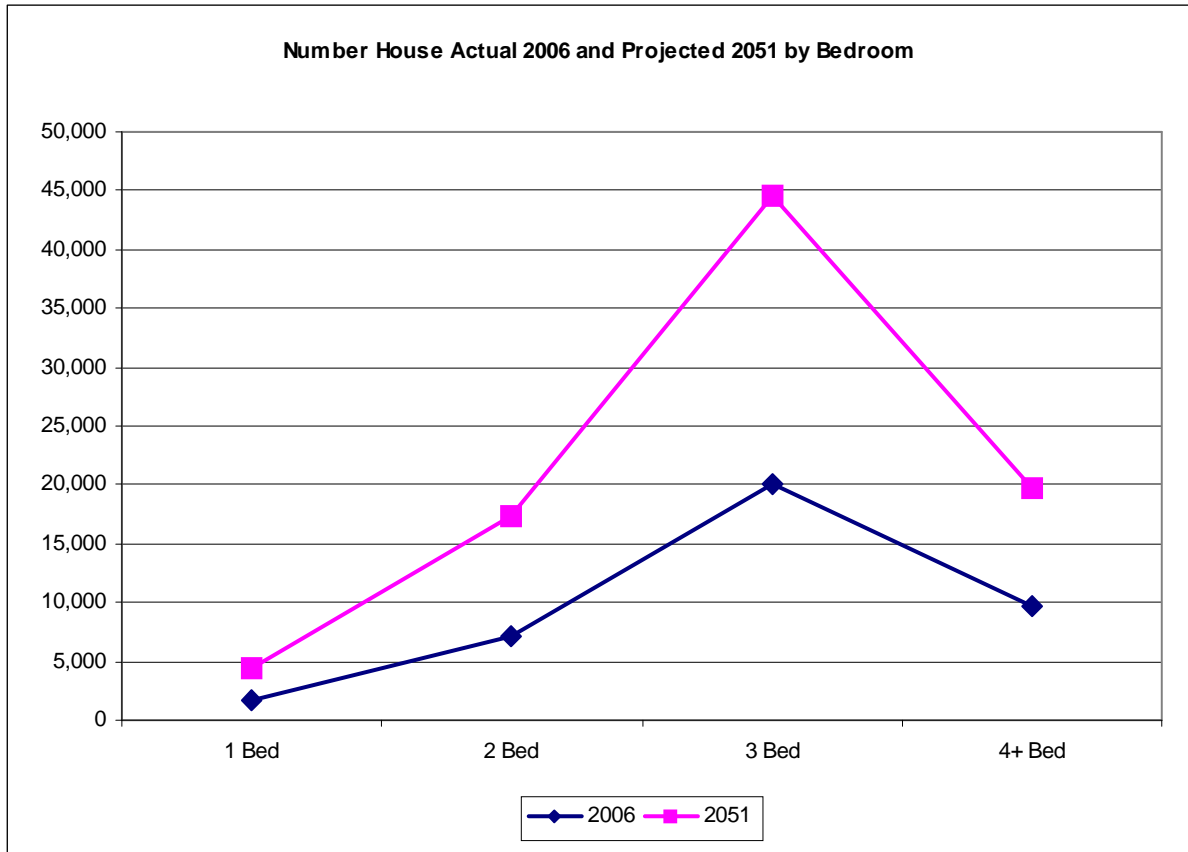
**Graph 10 : Number of Houses by Bedroom Numbers**



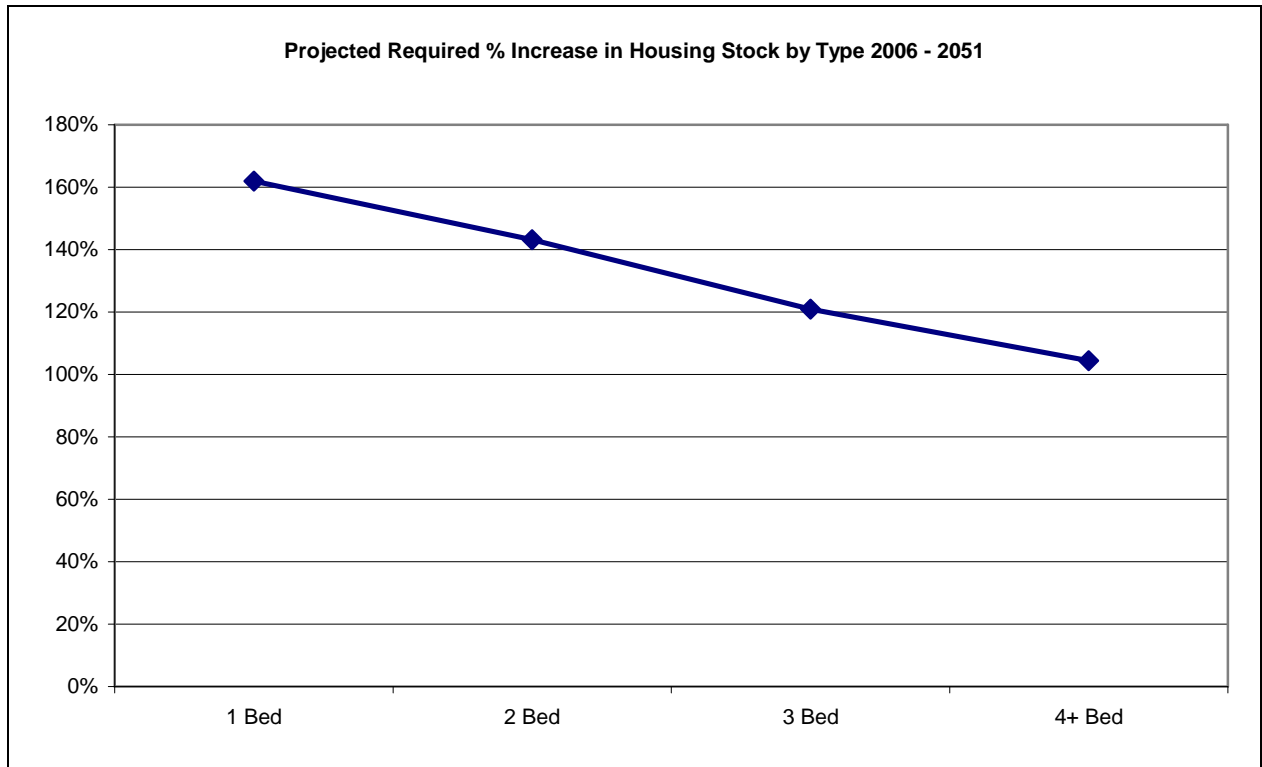
## 8. Projected Required Housing Type

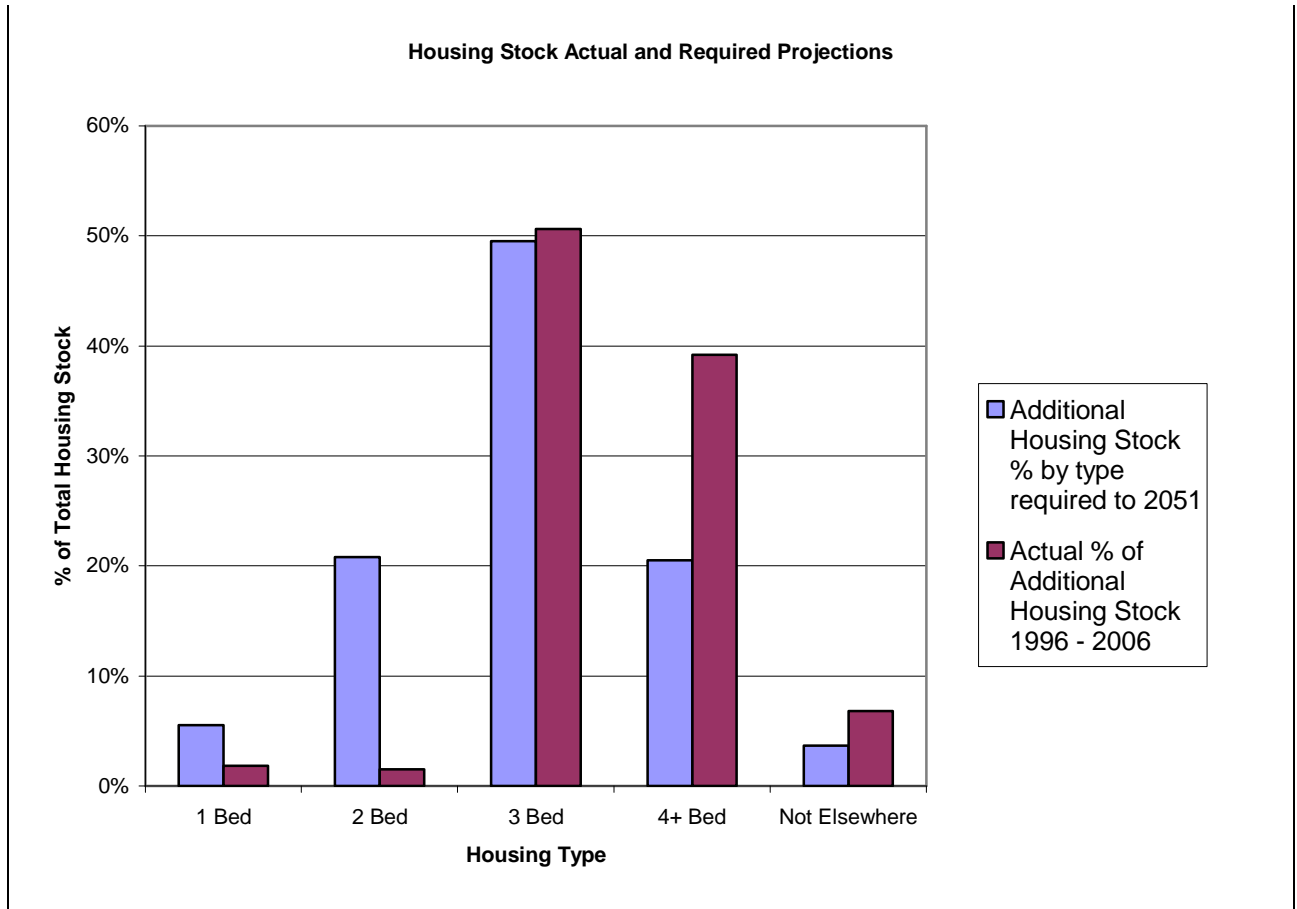
If the current housing choice by household type is extrapolated over the household projections to 2051 this shows the percentage of housing stock which could be expected to be required by the marketplace.

**Graph 11 : Number of Houses by Bedroom Actual & Projected**



**Graph 12 : Projected % in Required Housing Stock by Bedrooms 2006 – 2051**

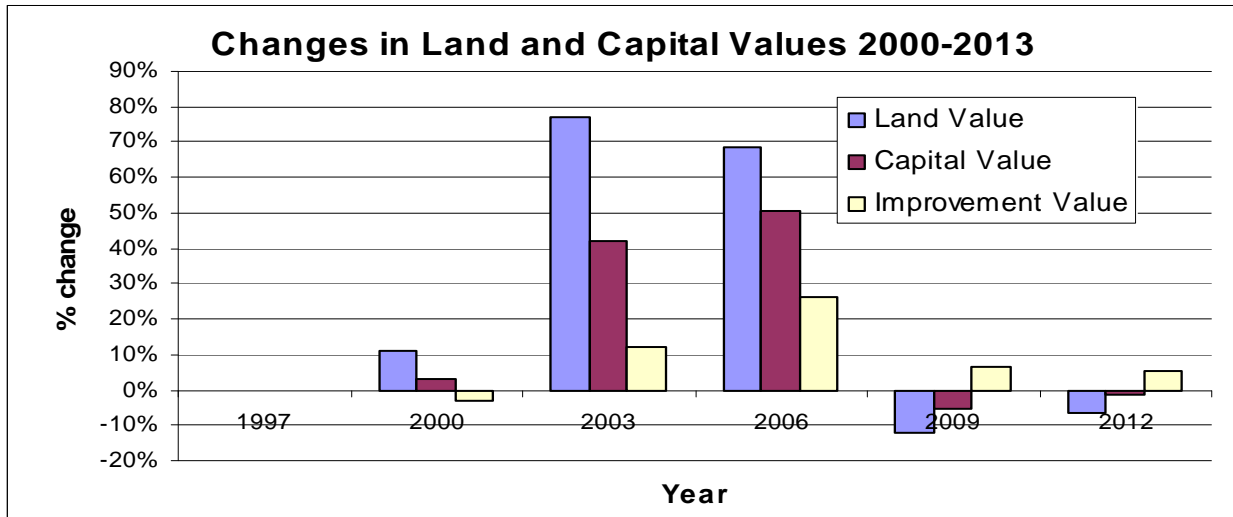


**Graph 13 : Actual & Projected Housing Stock as a percentage of Total Housing Stock**

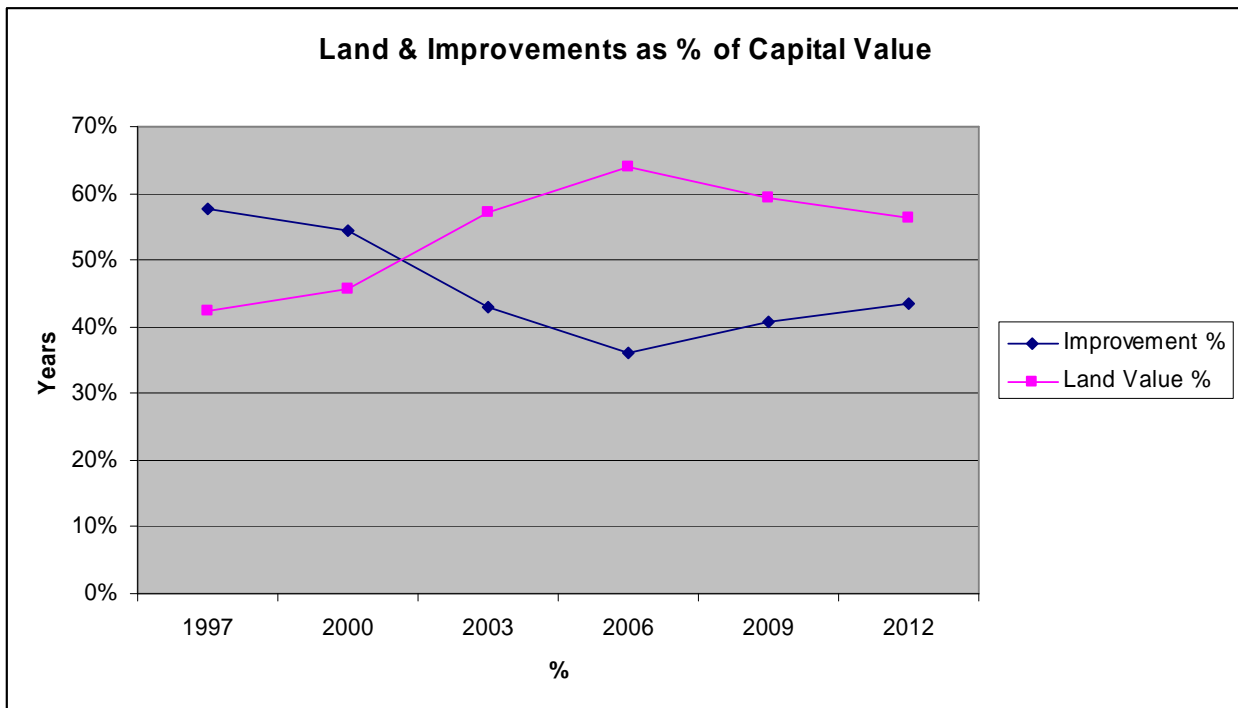
## 9. Changes in Land and Improvement Valuations

- Land values have increased 173% since 1997, while improvements have increased by only 55% over the same time period.
- Land value in 1997 made up 42% of capital value, now (2012) it makes up 56% of capital value.
- 70% of the increases in total capital value since 1997 is attributable to increases in land value.
- Increasing land values is the greatest contributor to the affordability issue.
- Will we see parity between increases in land value and improvement value by 2015 or 2018 (reference to graph 15)?

**Graph 14: Percentage Change in Valuation 2000- 2012**



**Graph 15 : Land & Improvements as Percentage of Capital Value**

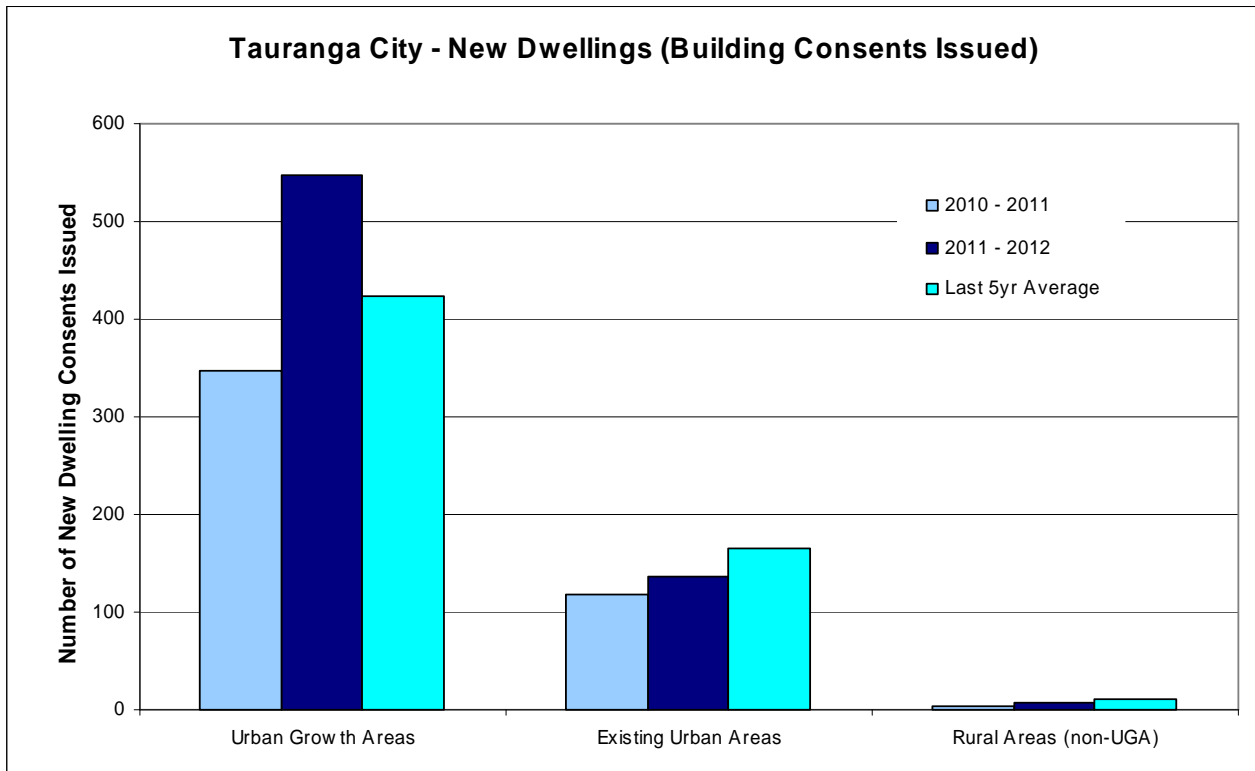


**10. Housing Uptake and Remaining Capacity**

- In the last 5 years to 2012, on average, 601 residential dwellings are constructed each year (greenfields and infill).
- There is sufficient zoned Greenfield land supply with infrastructure network services delivered or planned to provide capacity for about 18 years.
- Providing further land for development, beyond that currently planned, will not be financially sustainable as there is insufficient debt capacity in Council’s balance sheet to fund the network infrastructure required for additional Greenfield growth areas and also additional infrastructure will result in increased operational costs being borne by the ratepayer.

The table below summarises the number of building consents issues for 2010/11 and 2011/12.

Building Consents	2010 - 2011	2011 - 2012	Last 5yr Average
Urban Growth Areas	347	548	424
Existing Urban Areas	119	136	166
Rural Areas (non-UGA)	4	8	11
<b>Total</b>	<b>470</b>	<b>692</b>	<b>601</b>



The graph below from the 2009 report which shows the number of dwellings completed in new urban growth areas, existing urban areas and rural areas reveals quite a different profile from the 2012 graph above. The key differences are:

- The 2011/2012 new dwelling consent results are significantly higher than 2010/2011 results particularly in the UGA's, while the opposite trend is shown in the 2009 graph with 2008/2009 results in the UGA's significantly lower than 2007/2008 results.
- Over the last 5 years to June 2012 the average number of residential dwellings constructed each year was 601 which is a significantly lower profile than the last 5 year average to June 2009 of 922 dwellings per year.

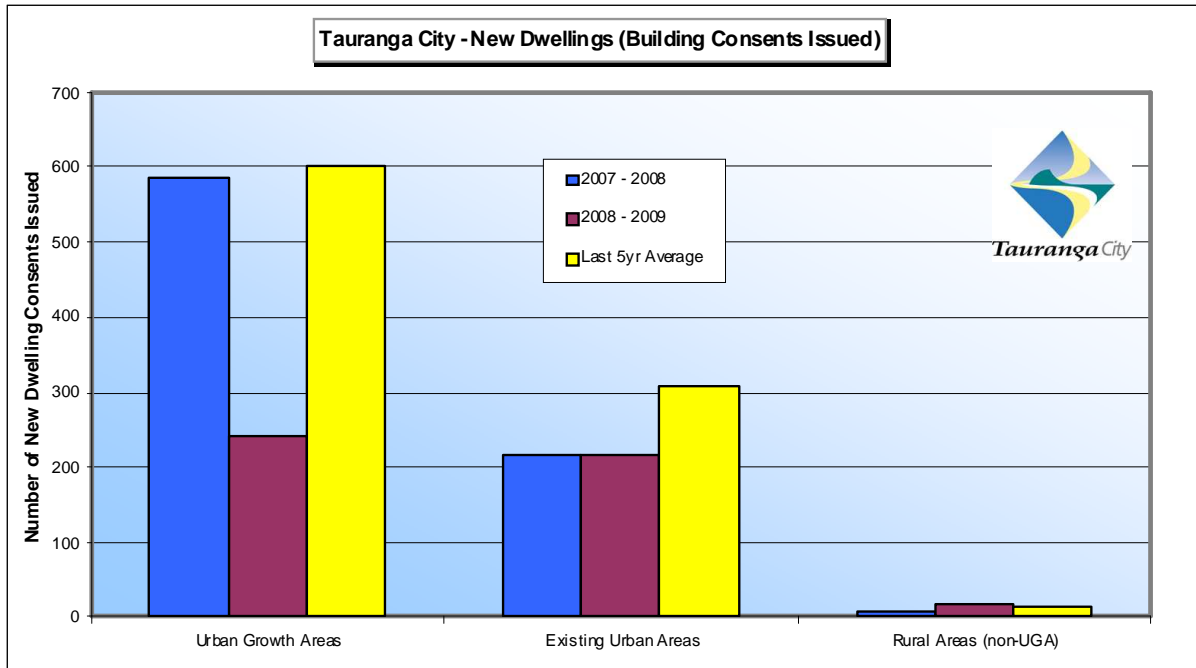


Table 11 below shows, for each Urban Growth Area, the total and remaining dwelling capacity. Papamoa, Wairakei and Pyes Pa West have the largest remaining capacity.

**Table 11. Growth Rate of Urban Growth Areas in Tauranga City**

Urban Growth Areas	Design Capacity - Total Dwellings	2006 Census (March) - Total Dwellings	Dwellings Completed March 2006 - June 2011	Dwellings Completed July 2011 - June 2012	Remaining Capacity	Last 3 years	Years Left <sup>1</sup>	% Capacity Remaining
Bethlehem	4333	2071	520	74	1668	199	25	38%
Pyes Pa <sup>2</sup>	2363	1170	762	71	360	273	4	15%
Pyes Pa West	2926	0	162	47	2717	127	64	93%
Ohauti	1680	887	284	9	500	68	22	30%
Welcome Bay	2052	1121	312	34	585	90	20	29%
Papamoa	11153	7746	1028	128	2251	398	17	20%
Wairakei <sup>3</sup>	3285	0	0	0	3285	0	40	100%
Total	<b>27792</b>	<b>12995</b>	<b>3068</b>	<b>363</b>	<b>11366</b>	<b>1155</b>		

The same table which was presented in the 2009 report shows higher activity over the previous three years but a lower dwelling capacity at 6,770 potential dwellings compared to 11,366 on 2012. The remaining capacity figure increased as a result of a detailed assessment of the operative UGA's where it was identified that the UGA's were generally achieving greater yield than originally anticipated. The rezoning of Wairakei and Bethlehem North West structure plan areas further increased remaining UGA capacity.



Urban Growth Area	Design Capacity - Total Dwellings	2006 Census (March) - Total Dwellings <sup>1</sup>	Dwelling Completed March 2006 - June 2008	Dwelling Completed July 2008 - June 2009	Remaining Capacity	Last 3 years <sup>2</sup>	Years Left <sup>3</sup>	% Capacity Remaining
Bethlehem	3857	2071	330	66	1390	357	<b>12</b>	<b>34%</b>
Pyes Pa	1990	988	423	137	442	490	<b>3</b>	<b>22%</b>
Pyes Pa West	3017	0	53	28	2936	339	<b>26</b>	<b>97%</b>
Ohauti	1293	764	181	44	304	177	<b>5</b>	<b>24%</b>
Welcome Bay	1450	862	205	49	334	218	<b>5</b>	<b>23%</b>
Papamoa <sup>4</sup>	9855	7734	617	140	1364	670	<b>6</b>	<b>14%</b>
<b>Total</b>	<b>21462</b>	<b>12419</b>	<b>1809</b>	<b>464</b>	<b>6770</b>	<b>2251</b>		

There is a view by some that releasing further land for development will increase supply and therefore increase affordability. The issue arises however that network infrastructure needs to provide to service the land. That infrastructure needs to be funded and as there is only so much growth in any year, there will be more unutilised infrastructure capacity.

The infrastructure is generally debt funded which uses up debt capacity of the Council (and also of the developer) and incurs cost of capital. It is highlighted in section 12 below that Council has significant debt capacity issues already and releasing further land will only exacerbate this issue. Furthermore, the additional new infrastructure will be vested in Council driving increased operational and depreciation costs to the ratepayer base.

The Methodology for this Report is contained in TCC Ref

2006 Census information has been used as the latest available. The report will need to be updated when the 2013 Census information becomes available in 2014.