

Gisborne housing stocktake: Update 2021

Report for Manaaki Tairāwhiti
and Trust Tairāwhiti

28 October 2021



SENSE PARTNERS
DATA LOGIC ACTION



Key points

Housing affordability deteriorating

- The median house price in Gisborne has increased 40% to \$570k in the year to June 2021, outpacing the nationwide increase of 21%. Demand has risen from population growth, inflow of investments, and easier borrowing conditions.
- House prices are now 10.6x the average household income, up from 9.1x in 2020 and 8.6x in 2019. It is 11.8x the income of the average renting household – firmly out of reach.
- There is an also intensifying rental crisis in Gisborne. The number of rentals (as measured by active bonds) has fallen by 1% a year over the last three years, while population (a proxy for demand) has grown by 1% a year. So, rents have soared by 10% a year over the last three years to \$390 a week.

Intensifying need

- Increasing population, reducing affordability, and declining rental stock is creating a perfect storm of intensifying housing need.
- There were 585 households on the Housing Register, up 16% over the last year. It had more than doubled the previous year. The waitlist stabilised between March and June 2021.
- Housing need is intense in Gisborne. Government housing assistance spend is around \$45m a year (across IRRS, AS, TAS, EHSNG, etc.).

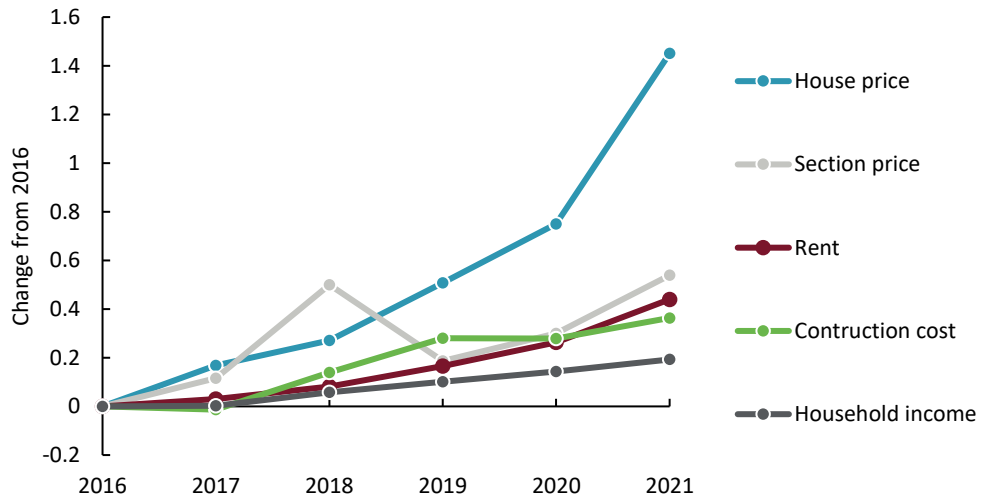
Building more, more capacity, more expensive

- 143 homes were consented in the year to August 2021, up 59% from 2020. This is the most consents issued since 2012.
- Building rate needs to stay elevated for a long time to meet current demand and make up for past shortfalls.
- The new supply is not necessarily directed to cohorts who need it the most (renters and social housing tenants). It will not happen on its own and requires active intervention deliver.
- It is getting more expensive to build. The cost of construction rose by 9% last year to \$410,000 for 170m² home and section prices rose 34% to \$256k. Land now makes up 40% of a new build cost. Improving construction productivity (investing in training and automation) and increasing land supply (through greenfields and increasing density) are urgent.
- There are construction workers and construction capacity in Gisborne. But an intensifying labour shortage in the construction industry is driving up labour costs and increases risk of losing workers and capacity to other regions.

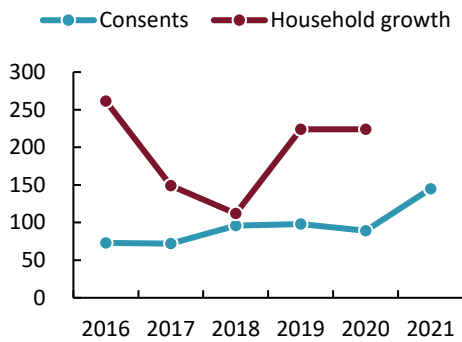


FIGURE 1: KEY HOUSING METRICS FOR GISBORNE

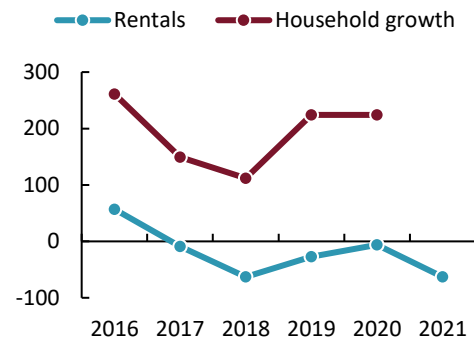
House prices, section prices, average rent, construction cost and household income, % change since 2016



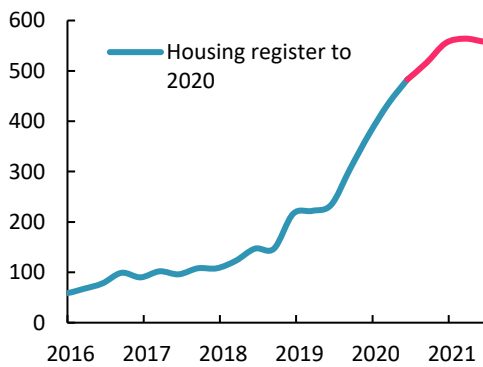
Growth in demand (households) vs new supply (consents)



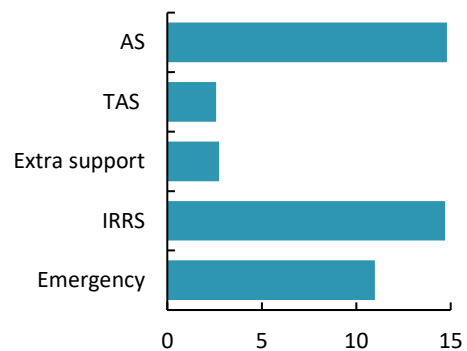
Growth in demand (households) vs rental stock growth (change in active bonds)



Households on housing register



Housing assistance payments, \$m pa





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1. Context

In 2019, Manaaki Tairāwhiti invited Sense Partners to collaborate with stakeholder and write a housing strategy to address a developing housing crisis in Gisborne. The goal was to ensure a co-ordinated approach to catalyse more house building.

As a pre-cursor to delivering the strategy a stocktake was completed to assesses needs, the general environment, and barriers to better housing outcomes. The stocktake was presented to a workshop held in Gisborne on October 1, 2019, where many stakeholders were brought round the table to discuss the issues, identify what needs to be done and agree an action plan or way forward to deliver better housing outcomes.

A subsequent update of the 2019 stocktake was provided in October 2020. This report provides a further update using the latest available data for 14 October 2021.



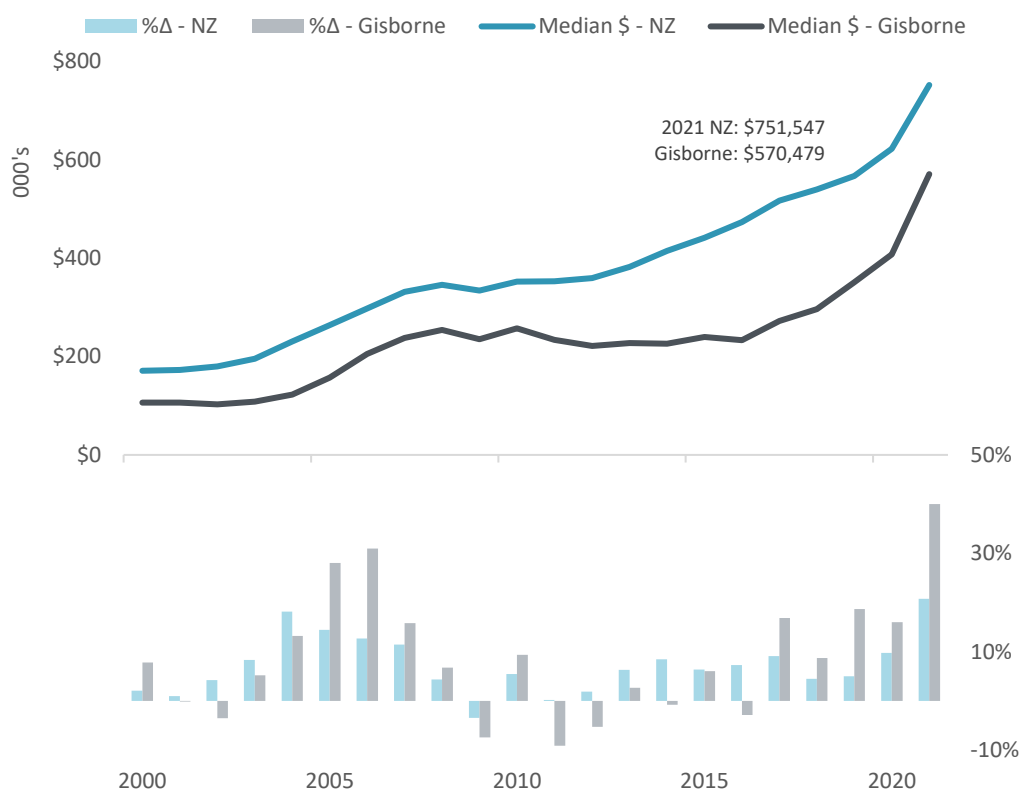
2. Affordability is deteriorating

House prices have exploded across New Zealand

Gisborne house prices have risen even more than rocketing prices nationally. Median prices in Gisborne rose 40% in the year to June 2021, twice as fast as the national increase of 21%.

Changes in house prices in Gisborne typically reflect the nationwide pattern but are both delayed and more volatile. Should a correction in house prices occur, the historical pattern implies the correction will be greater in Gisborne, but take longer to set in.

FIGURE 2: PRICES IN GISBORNE HAVE RISEN 40% SINCE JUNE 2020
Gisborne median house prices



Source: Real Estate Institute of New Zealand

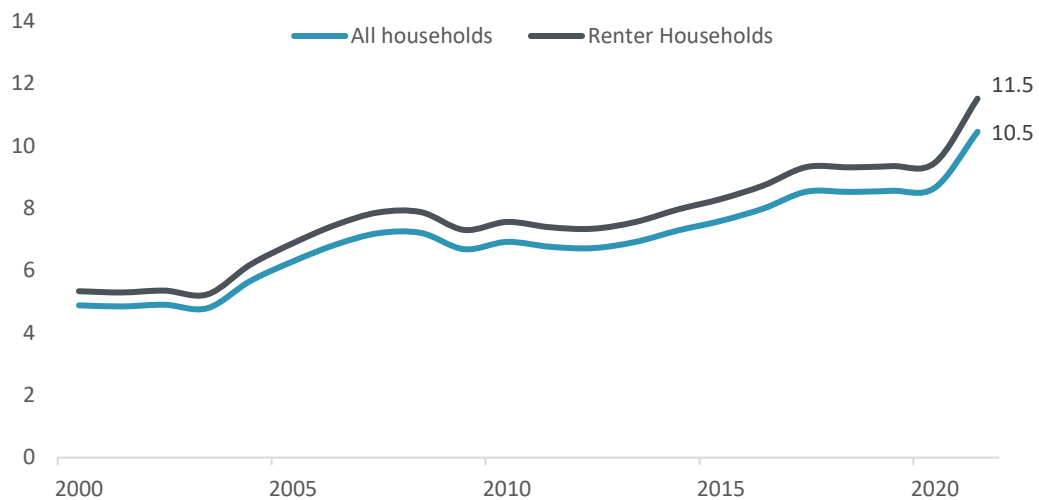
Incomes are not keeping pace

Incomes have not kept pace with rapidly rising house prices. Household incomes in Gisborne, estimated by Sense Partners, rose 5.2% in the year to June 2021. Houses have become more expensive to save for. The price-to-income ratio is higher for renter households than for the whole population, because renters typically earn less.



FIGURE 3: PRICE-TO-INCOME RATIOS HAVE INCREASED FROM 8.7 TO 10.5

Price to income ratio, year to June, Gisborne



Source: REINZ, Ministry of Housing and Urban Development, Sense Partners

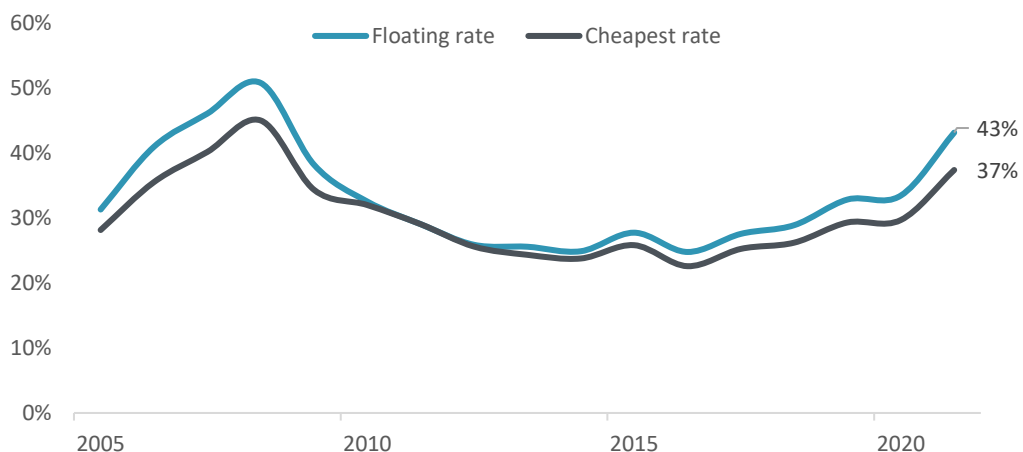
House price rises outpace interest savings

Record low interest rates and increasing incomes have not made a mortgage more affordable, as prices rose even faster. Mortgages are less affordable than in 2020, and the least affordable since the very high interest rates of 2008/09. As interest rates start to rise, this will worsen mortgage affordability in Gisborne.

Their biggest drivers of higher house prices have been easier access to mortgages, particularly for investors, and cheaper mortgages. But these are now changing. The RBNZ has started to increase interest rates and has made mortgages harder to get with small deposits and for investors. These could slow the increase in house prices.

FIGURE 4: AT THE LOWEST RATE, MORTGAGE PAYMENTS CONSUME 37% OF INCOMES

Mortgage cost to Renter's income ratio, Gisborne



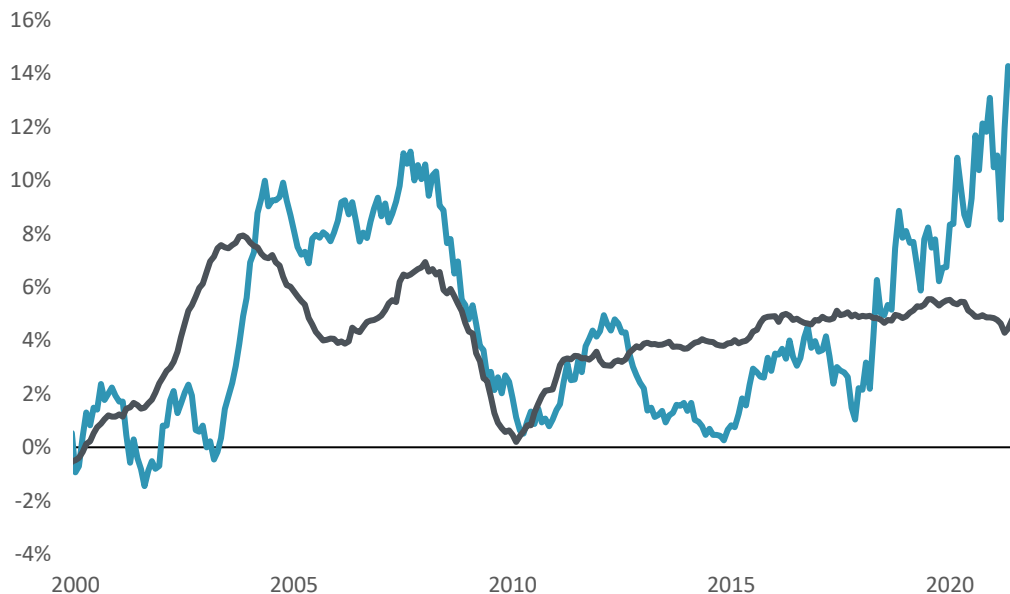
Source: Ministry of Housing and Urban Development, Reserve Bank of New Zealand, Sense Partners



Rents are rising rapidly

Rents are rising much faster in Gisborne than nationally. This is despite a 6-month government-imposed rent freeze in March 2020. Rents on newly lodged bonds are still trending sharply higher. There are fewer new tenancies, which have fallen from 115 new tenancies a month a decade ago, to less than 70 new tenancies a month now.

FIGURE 5: AVERAGE RENTS ARE STILL RISING, THOUGH AT A REDUCED PACE
Change in rents, % difference on 12 month rolling median rent



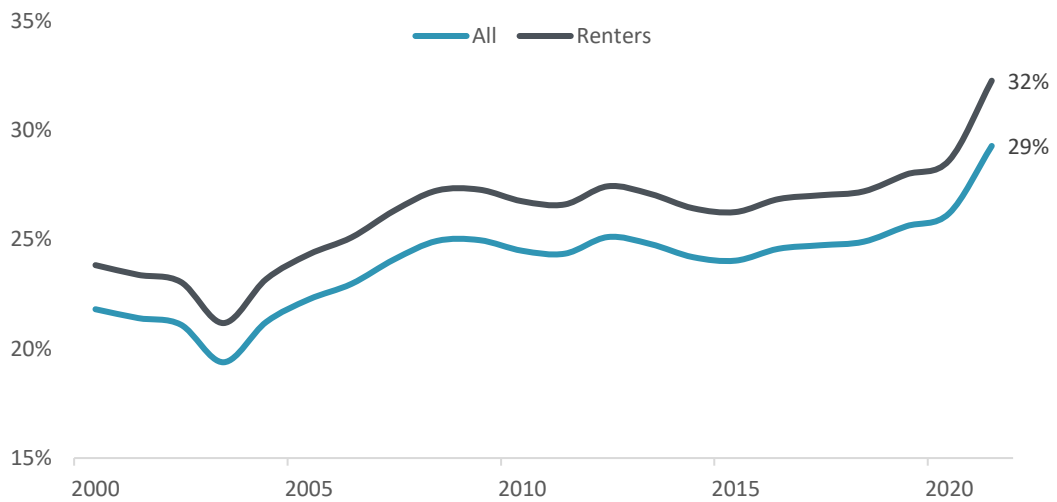
Source: Tenancy Services

Rents are getting more expensive

Rents in Gisborne have risen 14% in the year to June 2021 to \$390 per week, compared to 5% nationally. The median rent now consumes 32% of the average household income of renters in the region. This leaves less in the pocket for other essentials, such as food, utilities bills, healthcare, and education. As rental affordability drops, ability to save a house deposit declines, and economic hardship rises, as families struggle to meet other costs.



FIGURE 6: RENT CONSUMES 32% OF THE AVERAGE RENTER HOUSEHOLD'S INCOME
Rent to income ratio, year to June, Gisborne



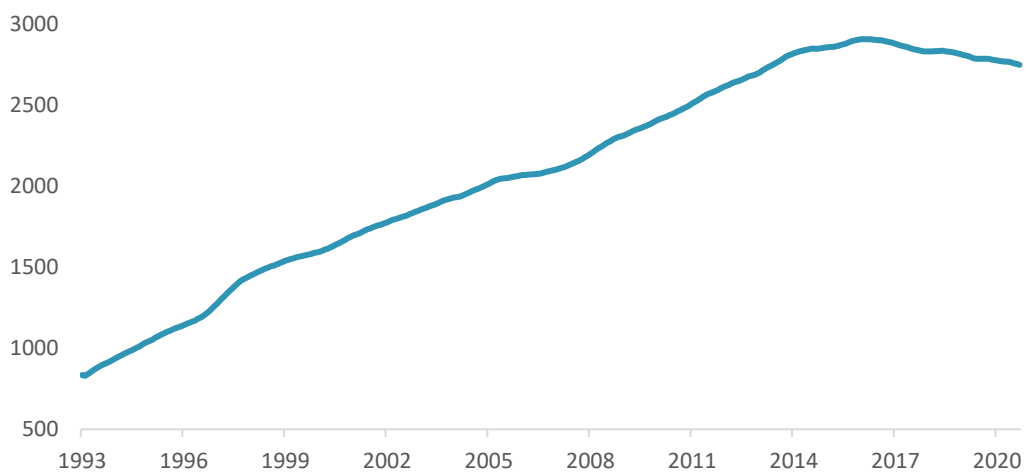
Source: Tenancy Services, Ministry of Housing and Urban Development, Sense Partners

A growing rental squeeze

There is an acute shortage of rental properties. The population has been growing at around 1% a year in recent years, but the number of rentals has been falling by 1% a year. This is causing a severe rental squeeze. When rentals exit the pool, they are likely to be occupied by an owner to live or as a holiday home (there hasn't been a noticeable increase in Airbnb listings in the region).

FIGURE 7: NUMBER OF RENTALS HAS BEEN TRENDING LOWER SINCE 2016

Number of active bonds, 12 month moving average



Source: Tenancy Services



3. Housing deprivation remains high

Unaffordable and unavailable rentals pushing people into social housing

Affordability is clearly declining, but the measures discussed so far don't capture the human cost of the housing deficit. Figures 8 and 9 below show the pressures placed on the housing register, the waitlist for social housing.

The period June 2019 – June 2020 saw a doubling of the waitlist from 235 to 484. In the 12 months since June 2020, the waitlist has increased a further 16% to 558, though this includes some stabilisation between March and June.

FIGURE 8: HOUSING REGISTER - GISBORNE

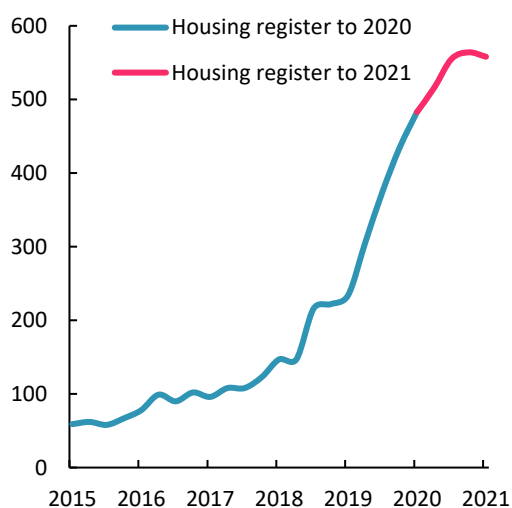
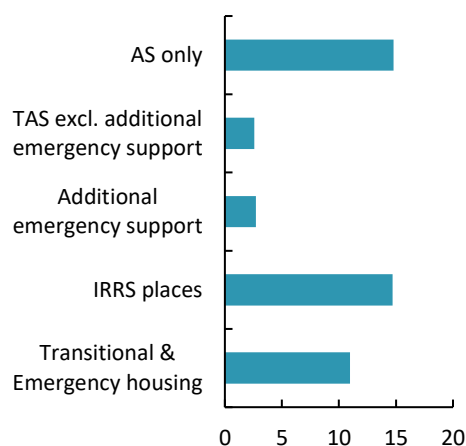


FIGURE 9: GOVERNMENT HOUSING ASSISTANCE PER YEAR (\$M)



Source: Ministry of Housing and Urban Development, Statistics New Zealand, Sense Partners

While the waitlist appears to be stabilising, Gisborne has retained its spot as having the second highest housing register relative to population in New Zealand. A stable level still means over 500 households are experiencing extreme housing deprivation.

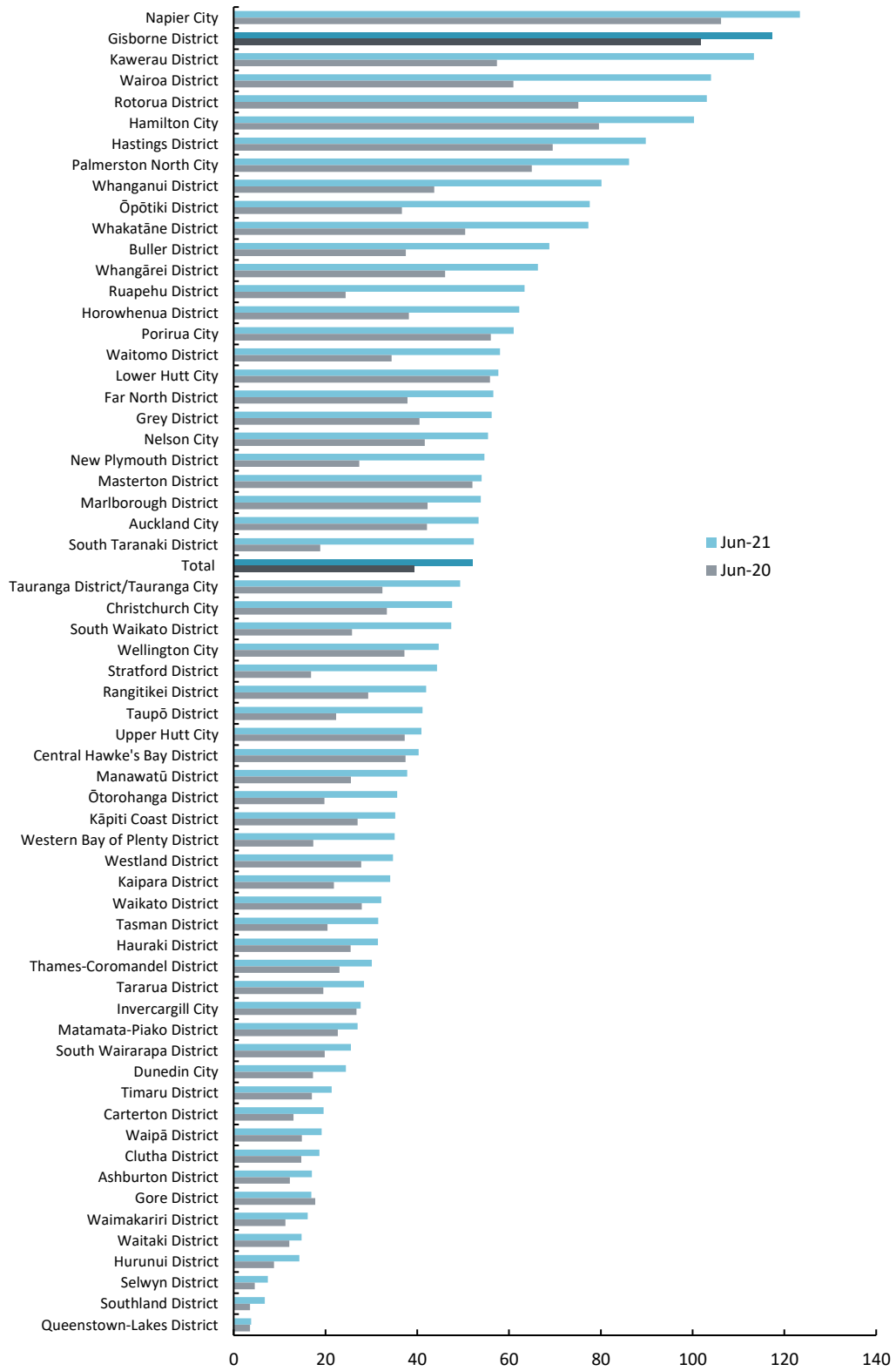
If we built only social houses at the current consent rate of 143, it would take 4 years to close the gap. Of course, much of the new housing is not aimed at social housing or rentals.

A significant increase in the construction of houses, both market rate and social housing, is needed to ease housing deprivation and improve housing affordability.

The high level of housing need is a significant social and fiscal cost. Latest data show government housing assistance of \$46m a year (largely on emergency housing, IRRS and AS).



FIGURE 10: HOUSING REGISTER PER 10K POPULATION



Source: Ministry of Social Development, Statistics New Zealand

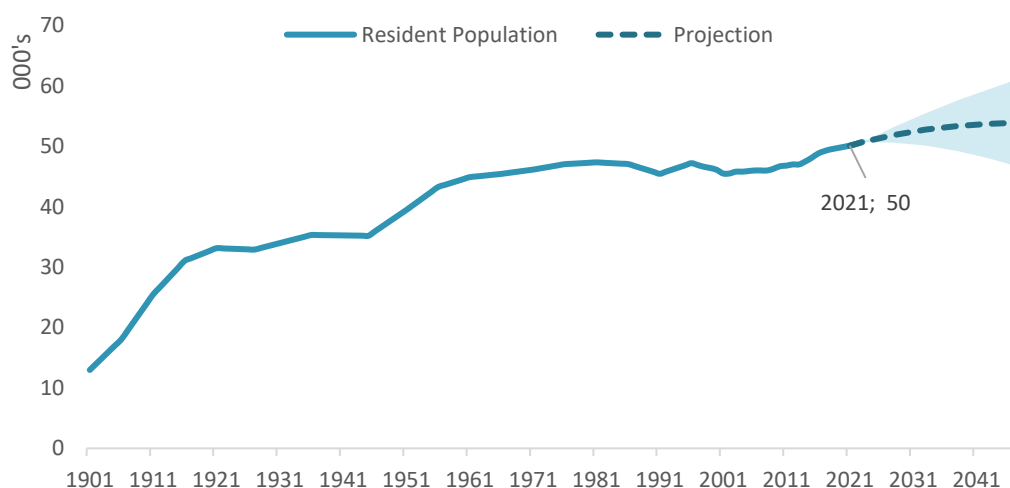


4. Demand continues to grow

Steady population growth is the foundation of increasing demand

Increases in demand for housing are underpinned by a growing population. Between 2017 and 2020 the population grew by 1,500 people, or 3% (slower than national growth of 6%).

FIGURE 11: POPULATION GROWTH HAS DRIVEN DEMAND FOR HOUSING
Current and projected population, Gisborne

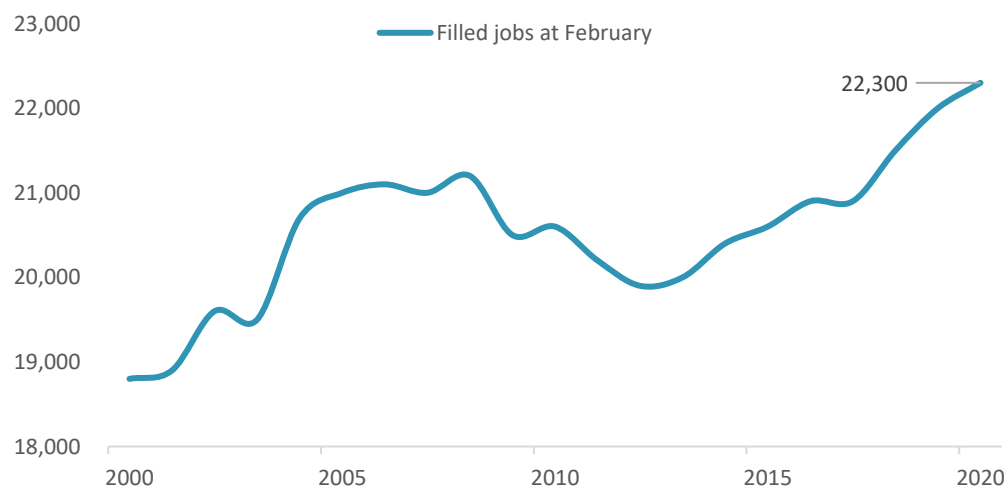


Source: Polkinghorne, J. (2017), Statistics New Zealand

Increased employment will support demand for housing

The local economy is strong. Employment increased by 7% or 1,400 since 2017. An improving economy is also driving up demand for housing and thus prices.

FIGURE 12: JOB NUMBERS ARE ON THE RISE
Employment in Gisborne



Source: Statistics New Zealand



Unemployment caused by the pandemic peaked at a much lower level than initially expected. This is because the economy was largely free of restrictions between short and sharp lockdowns. The outlook is less certain, as New Zealand moves from elimination to suppression, which in other countries has dented economic performance.

Despite economic uncertainties, labour shortages have intensified across the country, both because of a strong economy and a sudden stop in migrant workers. This is boosting employment and income prospects for many. But it is also causing some problems. Construction wages and costs are rising sharply, and construction workers may move to other regions to access more work and higher pay. A shortage of construction workers could make housing building more expensive, slow house building and exacerbate the housing shortage.



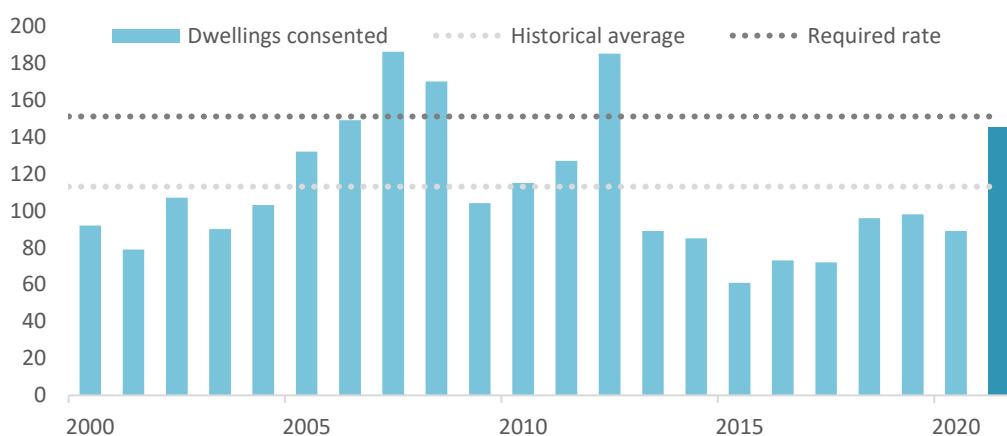
5. Supply is constrained by cost

Consenting is starting to pick up the slack

143 dwellings were consented in the year to August 2021, a 59% increase. This is close to the required rate of consenting (151) but building needs to be sustained at the required rate to simply keep pace with new demand, not make up for the past shortfall.

However, this new supply is not boosting the rental stock. The number of active rental properties has been falling since a peak in 2016. Over the last year three years, the population or rental demand has grown by 1% a year, while the number of active rentals has fallen by 1% a year. Predictably, rents have spiked, rising 10% a year over the last three years.

FIGURE 13: THE LATEST RATE OF CONSENTS MUST BE SUSTAINED
Dwellings consented per year in Gisborne



Source: Statistics New Zealand, Sense Partners

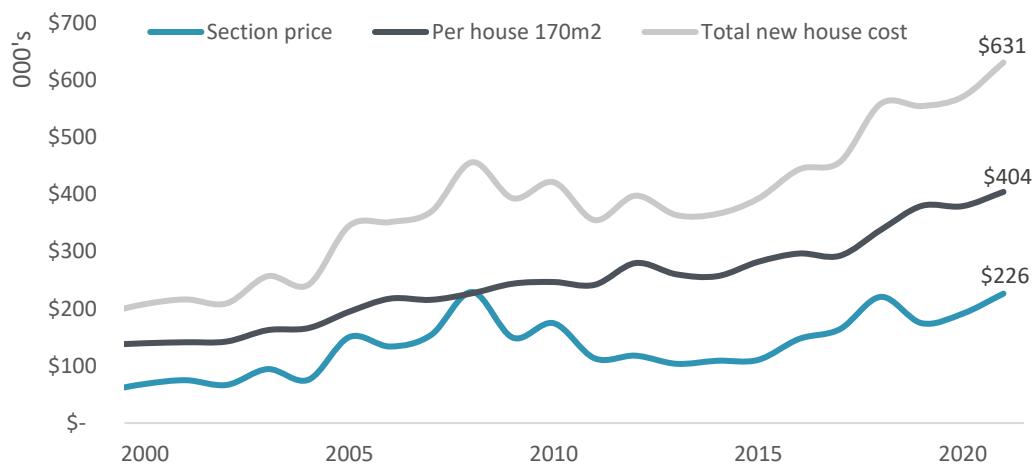
Construction costs remain high

The cost of construction is a significant barrier to expanding the housing supply, but land costs are also driving higher prices. The cost of construction has increased 9% in the year to June 2021, while the cost of land increased by 18%. The cost of section and build cost has increased by \$200,000 in the last five years (\$120,000 due to construction costs, and \$80,000 due to section costs).

Local and regional council have little influence over construction costs, but they can influence land costs through zoning and spatial planning. Zoning more land for development, both greenfields and higher density in the existing urban area, can help to ensure the supply of land is more in line with demand. Ideally, zoned and infrastructure planned land should far outstrip current demand.



FIGURE 14: THE COST OF LAND HAS INCREASED TO 18% OF TOTAL NEW BUILD COST
Land and construction costs



Source: Statistics New Zealand

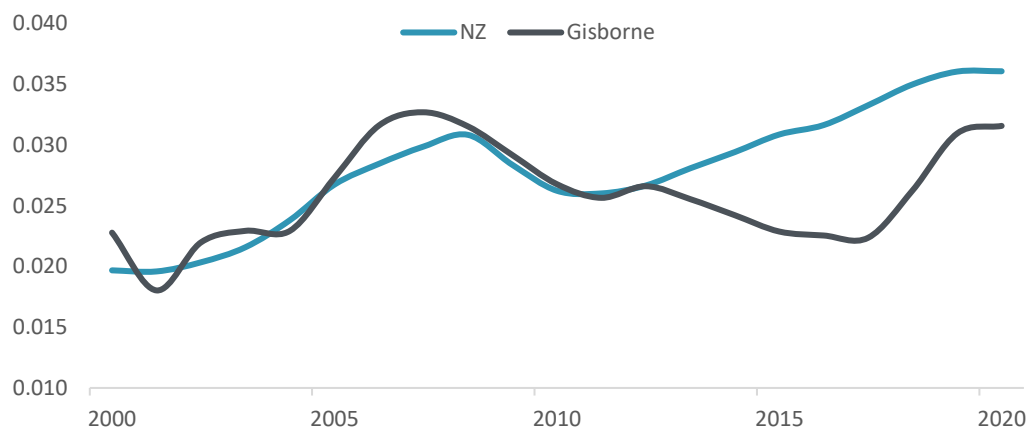
Growing construction capacity

Gisborne trails the rest of the country on the number of construction jobs in the region. As population is a key driver of demand, construction jobs per capita, can indicate the capacity of the local construction industry to meet demand.

Since 2017, the region has gained an estimated 500 jobs, a rise of 45%. This implies that a recovery in the sector is underway, however the COVID-19 pandemic may yet prove to be a stumbling block on the road to recovery. Approximately 230 more jobs in this typically labour-intensive sector will be needed to catch up with the rest of the country.

There is a risk that capacity constraints and labour shortages throughout the economy might increase inter-regional competition for scarce workers. Other regions, with the ability to offer higher wages, may attract construction workers at the expense of the Gisborne region.

FIGURE 15: GISBORNE HAS GAINED 500 CONSTRUCTION JOBS SINCE 2017
Construction jobs per capita



Source: Statistics New Zealand

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