

Gisborne housing stocktake: Update 2020

Report for Manaaki Tairāwhiti
and Trust Tairāwhiti

28 October 2020



SENSE PARTNERS
DATA LOGIC ACTION

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.

This report updates the earlier 2019 stocktake with the latest data for the region available at 14 October, 2020.

Key points

There is a significant housing shortage in Gisborne...

- The waitlist for public housing has risen sharply.
- The waitlist relative to population is the second highest of all Territorial Authorities.
- Additional housing has not been

...and housing has become increasingly unaffordable in 2020.

- Rents rose 9 percent last year.
- House prices are up 16 percent
- The median house price is now 9 times household incomes.
- Historically, home ownership falls when the ratio is over 4 times.

Housing supply remains very slow to respond

- Housing unable to keep up with demand driven by a surge in population growth, following decades of stability.
- There is a shortage of at least 400 homes.
- The impact is most heavily felt by the vulnerable – those in social houses and renters. It will add to increasing demand on HNZA for more housing, and on MSD for more housing support.
- Crowding appears to be increasing, which may lead to increased physical and mental health issues.
- This may increase DHB's costs on preventable diseases.

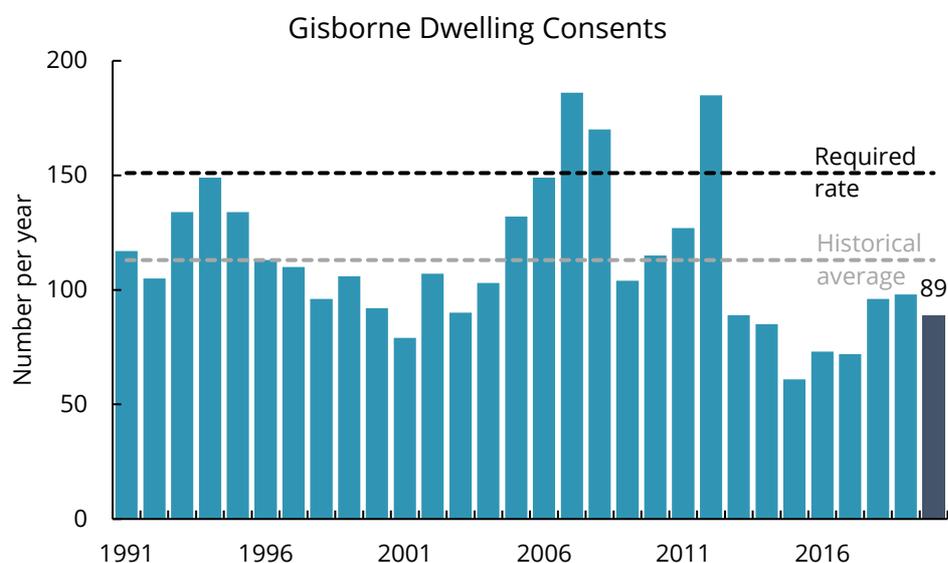
...Despite price rises, the development economics does not stack up in 2020

- Rents are not high enough relative to the cost of building a new house.
- The cost of a new house is too high relative to an old house.
- Since market price signals are not stimulating supply, a more needs-based targeted intervention is required.
- This needs to provide the supply of social and affordable houses the market will not deliver.
- Build-to-rent can be high risk in small locations because of uncertainty over future rent streams.
- Capital could underwrite the value of the future stream of loans reducing project risk.

Too few homes were built in 2020: the challenge remains to shift the development economics

- Long-term outcomes will generally require market-based solutions that change the pace of growth and will take time to achieve.
- These include changing the development equation – reduces costs of building relative to purchasing existing housing stock.
- Too few houses are being built to keep pace with growth (see Figure 1).

FIGURE 1: GISBORNE DWELLING CONSENTS NEED TO AVERAGE 150 PER YEAR, RATHER THAN <100 IN RECENT YEARS



Source: Statistics New Zealand, Sense Partners

Short-term wins remain located on the social end of the housing continuum

- Short-term focus needs to be on accelerating and increasing HNZN supply, and leveraging DHB and MSD expenditure in the region, current and projected. Housing related health costs are large (around \$5m in 2016/17 in Tairāwhiti DHB).
- Need to invest in outcomes-based initiatives, centred around housing and wrap around services. So, expect a group seeking to change social sector outcomes, like Manaaki Tairāwhiti to be influential.
- Long term aspiration is to have a permissive planning system and smooth infrastructure delivery, that makes it both economic and efficient to build houses for the people of Gisborne. This means reducing the wedge between the high cost of building and the cost of the existing housing stock.
- Progressive home ownership could be a powerful combination of the capital base of Trust Tairāwhiti and the support networks and leadership of Manaaki Tairāwhiti.

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1. A burning platform remains in 2020

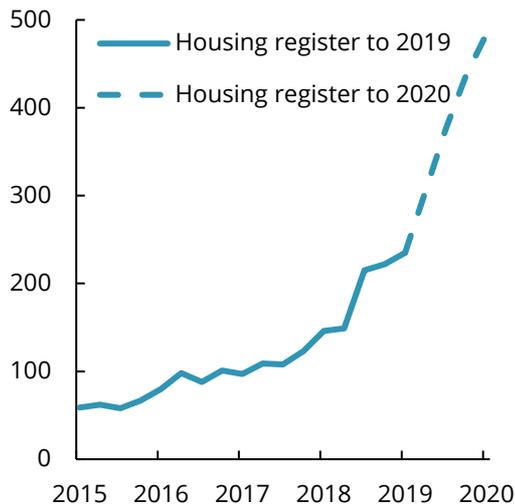
Needs are still acute

The Gisborne region has acute housing need. There is a significant shortage of housing, which is increasingly unaffordable for many to buy and rent. Average house prices are now 9 times average income in the region.

The housing register, which measures the waitlist for social housing, is a handy proxy for housing pressures. The register has grown rapidly in recent years (from less than 50 in 2014, to 235 in June 2019, Figure 2). Much of the demand is for smaller units (Figure 3); much of the housing supply is larger (86% of new housing supply 4 bedroom+).

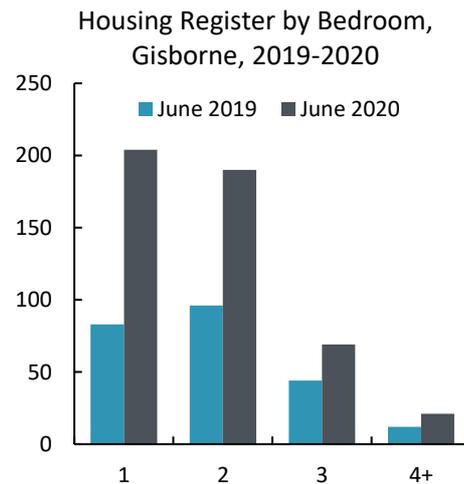
The waitlist has more than doubled over the last year, from 235 to 484 between June 2019 and June 2020. Most of the increase in demand focussed on one- and two-bedroom houses. Under the current recession, these values are expected to worsen.

FIGURE 2: THE HOUSING REGISTER HAS MORE THAN DOUBLED IN A YEAR



Source: MHUD, Statistics NZ, Sense Partners

FIGURE 3: MOST OF THE DEMAND IS NOW FOR 1-BEDROOM PLACES



Source: MHUD, Statistics NZ, Sense Partners

Housing needs in Gisborne are acute. Gisborne has the second highest housing register relative to the population of all the territorial authorities in NZ (Figure 4). Second only to neighbouring Napier City. The entire East Coast has intense housing needs that reflect three powerful forces:

- strong population growth,
- rapidly rising housing costs
- slow housing supply.

Demand is outpacing current supply growth

When housing demand outstrips supply, the pressure on housing is greatest for those with the least financial resources. This can lead to over-crowding and homelessness.

Increasing house prices and rents cascade down the housing continuum, until we see soaring demand for and a waitlist for social housing. While less visible, this is accompanied by increasing housing stress for those who may have otherwise been able to buy a home, and renters. This can show up increased assistance through the Accommodation Supplement (up to 16,178 from 15,705 in June 2018) and other means.

The imbalance between housing supply and demand also needs to be considered across the continuum. When starting from a position of housing shortage, increases in housing supply will tend to be for those who are well-off since building affordable homes is uneconomic, unless there are targeted interventions to increase other types of housing supply.

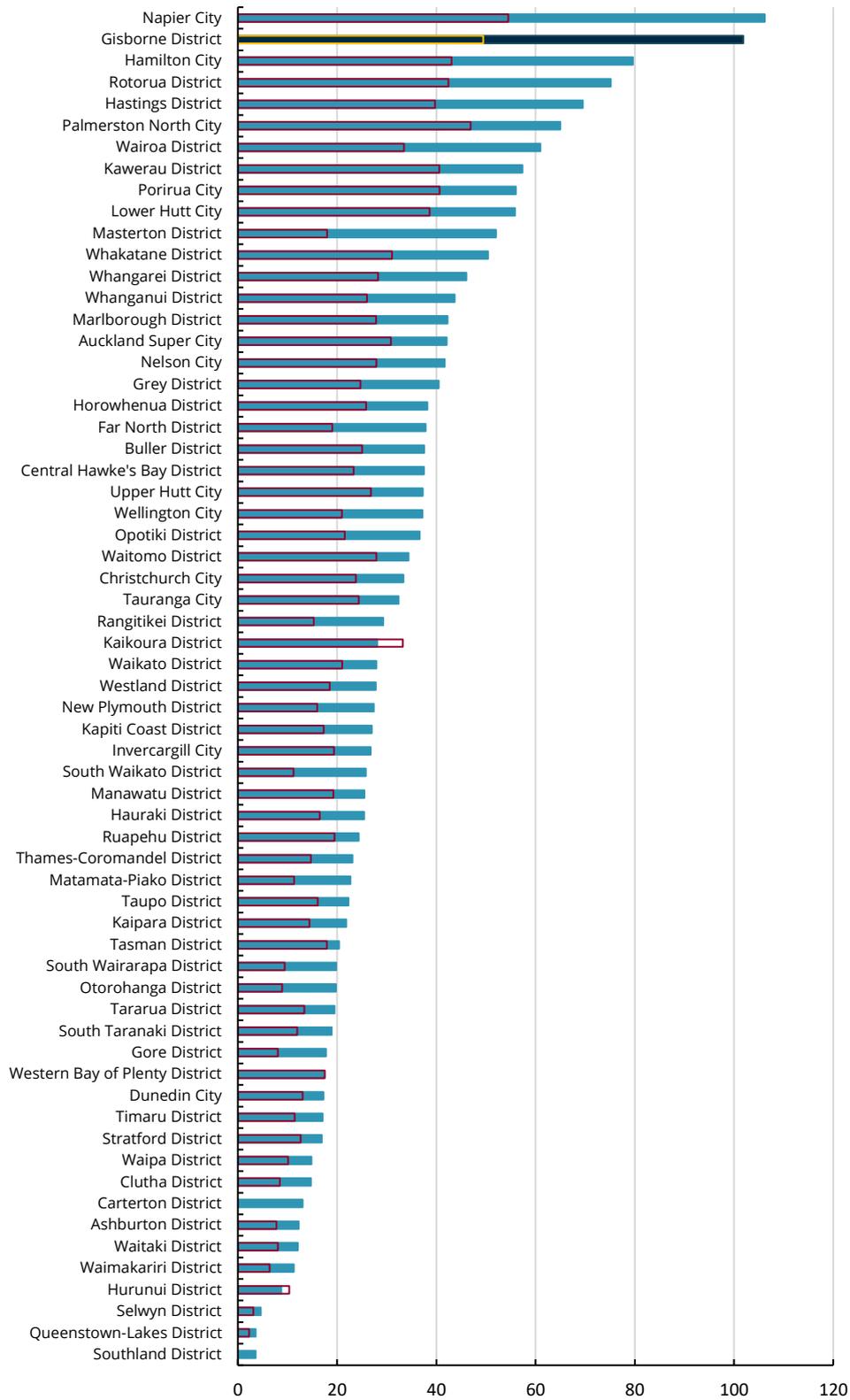
Gisborne's housing continuum

The housing stock is usually considered across a continuum. This gives us a good understanding of the size and distribution of the housing stock. Our best estimates (for 2018, rounded) and descriptions of each are:

- Emergency & transitional housing (340): Households with urgent and immediate housing needs.¹
- Social/state housing (1,250): We counted IRRS places, which represent households with complex needs and barriers in accessing and maintaining private rentals.
- Assisted rentals (160): We counted council housing (120) and community housing providers (40): households who don't qualify for public housing but cannot afford market rentals.
- Market rentals (6,200): these are market rentals but include those accessing Accommodation Supplement (which is not linked to other benefit payments). These households rent, either through choice or because they cannot afford to buy.
- Progressive ownership (15): We counted rent to own programs, for households who can't afford to buy a house outright (can't afford a deposit or cannot meet mortgage repayments for a full house).
- Ownership (7,600): Households that own outright or with a mortgage (those with sufficient resources to raise a deposit and meet mortgage repayments).
- We also mapped our best estimates of vacant homes and vacant residential lots.

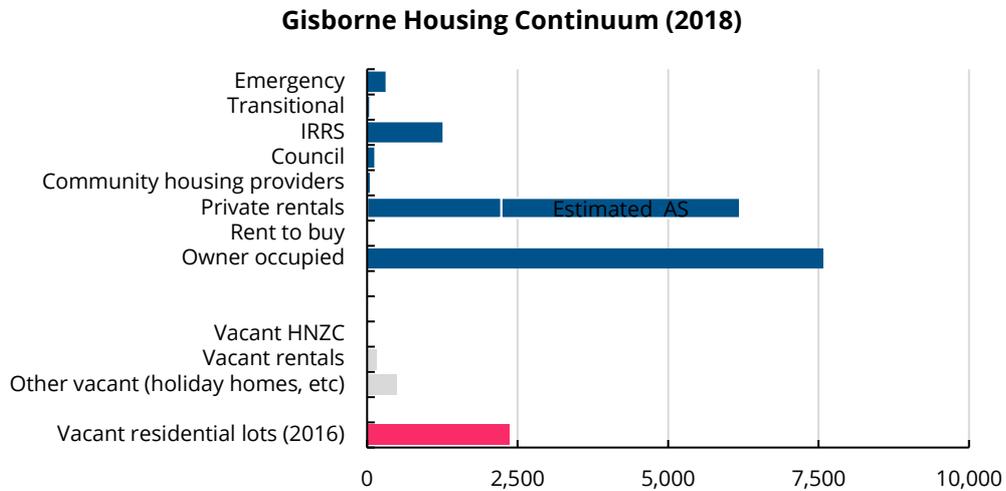
¹ CHPs include Te Runanganui O Ngati Porou Trustee Limited, Te Taiwhenua o Heretaunga Trust, Whatever It Takes Trust Incorporated, The Salvation Army New Zealand Trust, Waiohiki Community Charitable Trust and Habitat for Humanity NZ.

FIGURE 4: GISBORNE'S 2020 HOUSING REGISTER IS VERY HIGH IN PER CAPITA TERMS
Housing register relative to population, (per 10K)



Source: MSD, Statistics New Zealand

FIGURE 5: THE HOUSING STOCK IS LARGELY OWNER-OCCUPIED AND RENTALS



Source: Sense Partners estimates from Statistics NZ Census, CHA, MHUD, MSD, HNZA, Valocity

2. Demand for housing is up in 2020

- Housing demand is growing from population growth and ageing population
- Signs that crowding is increasing (housing related health costs around \$5m)
- Economic growth is boosting population growth prospect further, plus seasonal workers
- Tourism demand is a modest additional factor, but sector has high occupancy and falling capacity.

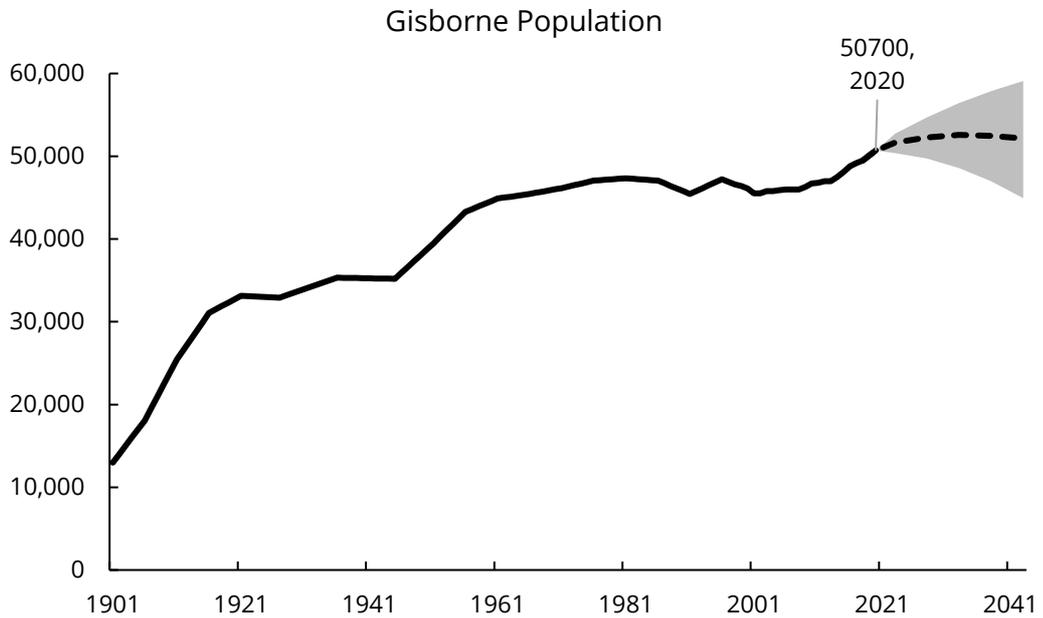
Strong population growth, but potential crowding

Gisborne’s population grew strongly in the latest census (by 9% between 2013 and 2018), after many years of no growth (since the previous high in the late 1970s, Figure 6). Latest data for 2019 and 2020 show Gisborne’s population has increased by 1,500 people or 3 percent in the last three years. This is increasing the demand for housing.

The population growth acceleration came mainly from increased migration (Figure 7). Data to 2016 suggest it was mainly international migration or returning New Zealanders. Anecdotes suggest regional migration may have also turned positive in recent years, as a growing economy and unaffordable housing elsewhere attracted people to the region.

The number of households has increased, but not as much as we would have expected with an ageing population. Household size had been trending lower in the region along expected demographic patterns, but the household size rose unexpectedly in the 2018 census.

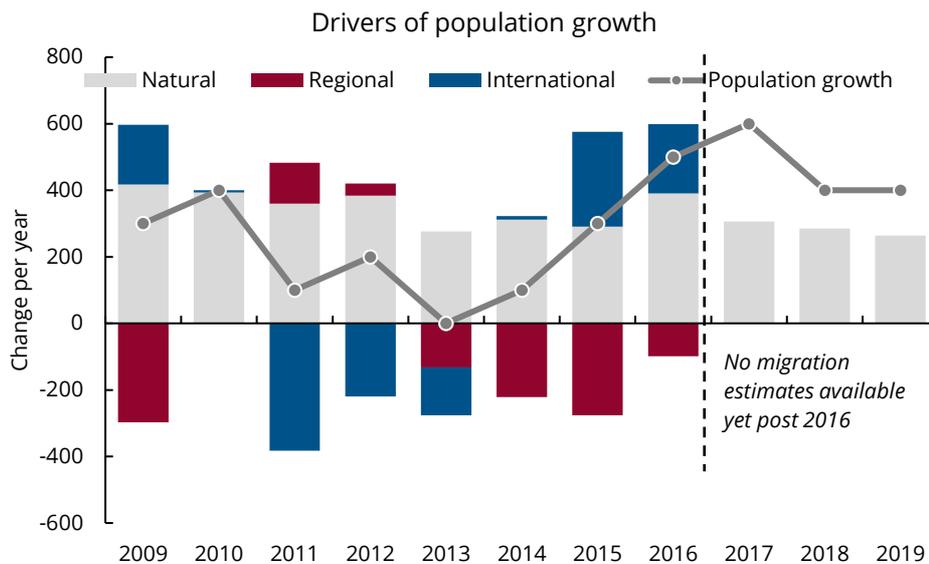
FIGURE 6: GISBORNE'S POPULATION CONTINUES TO GROW STRONGLY



Source: Polkinghorne, J (2017) NZ Local Population Database, Statistics NZ

This means there was less realised increase in households but may indicate increased crowding. Historical data show higher than national rates of crowding in the Tairāwhiti District Health Board. The crowding is concentrated among renters, Māori and Pacific peoples, younger people (children under 5 and 15-24 year olds). This may have gotten worse in recent years. Housing related health costs are large (around \$5m in 2016/17 in Tairāwhiti DHB).

FIGURE 7: POPULATION GROWTH IS ACCELERATING DUE TO MIGRATION

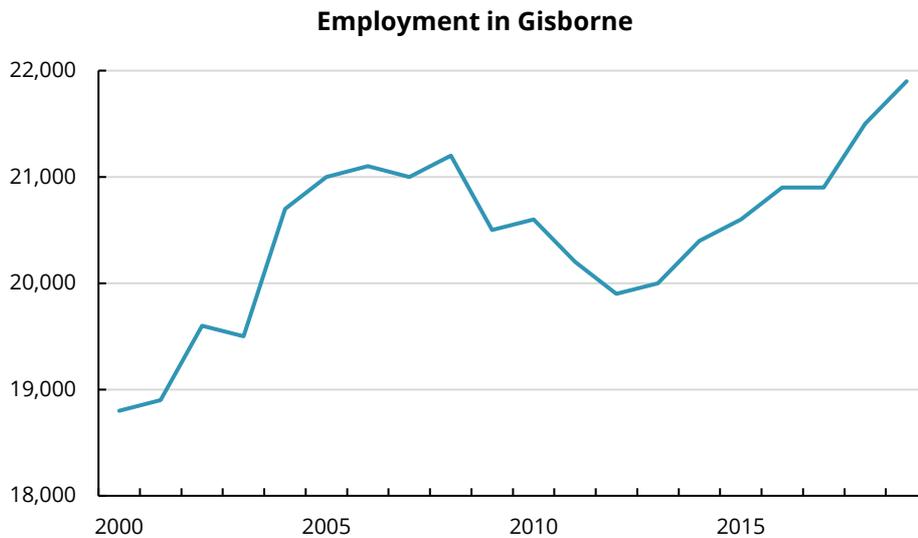


Source: Treasury data insights tool, Statistics NZ, Sense Partners

The regional economy had been doing very well...

Population and housing demand growth had been boosted by a growing economy. Employment is a good proxy for economic activity. The economy was negatively affected by a long lingering recession from 2009 to 2013 but has since recovered. The recovery has been broad based and businesses report labour shortages. This recovery means continued to demand for workers and thus encourage further migration to the region.

FIGURE 8: THE ECONOMY HAS RECOVERED STRONGLY AND BUSINESSES REPORT LABOUR SHORTAGES



Source: Statistics NZ

But the impact of COVID-19 is likely to reduce economic activity for some years. New Zealand Treasury and the Reserve Bank of New Zealand (see 9) expect unemployment to increase throughout New Zealand. But the full impacts are yet to appear in the data. Figure 10 shows filled jobs in Gisborne in September 2020 are at similar levels to a year ago.

FIGURE 9: UNEMPLOYMENT WILL RISE
New Zealand, Unemployment rate (%)



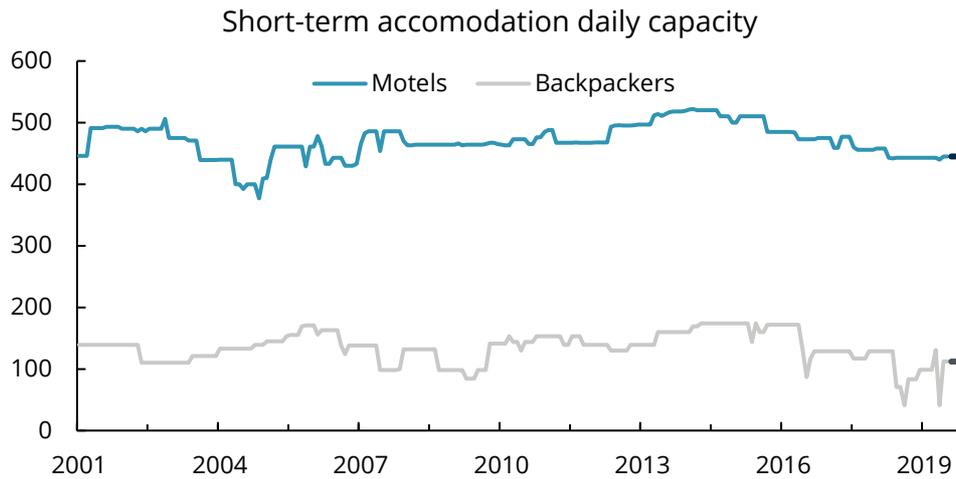
FIGURE 10: IMPACTS APPEAR STILL TO COME
Gisborne, Filled jobs



...expect pressure on short term accommodation

Short term accommodation capacity to meet sudden changes in housing demand is reducing, with historically high occupancy rates for short term accommodation in the region and declining capacity among motels and backpackers.

FIGURE 11: SHORT-TERM CAPACITY IS STABLE SINCE JUNE 2019
Gisborne District



Source: Statistics NZ, update data for 2020 is not available.

3. Housing supply too slow in 2020

- Housing supply remains slow
- Shortage of at least 400 homes
- Building large homes but growth in demand at 1 and 2 person households
- Vacant stock of homes increasing
- The development economics does not stack up

Growth has been slow...

The Gisborne housing stock has grown slowly. Between census periods the increase in housing stock has averaged 85 units (net of demolitions) a year over the last 17 years. The rate of consent issuance is higher, but some consents are not built or replace an existing house.² In the latest Census, some of the consents delayed during the recession have caught up.

Nevertheless, we estimate the housing supply has not kept pace with underlying demand (population growth and demographic patterns) for housing for nearly 15 years. Cumulatively the shortage of housing is at least 400 units.

We cross checked our estimate of the housing shortage against other approaches. For example, solving for a historical vacancy rate for the housing stock and household size. They yield a range of estimates from a low of 50 and high of 1,000 units. Most of our estimates from 2019 cluster around the 400 mark and is our preferred estimate of housing shortage.

There is a growing trend of vacant homes around New Zealand. It is not yet fully understood why this is the case. In some parts, it is because of their use as holiday homes. There is no immediate evidence of increased pressure on the housing stock from AirBnB or other holiday home sites. A search in October showed less than 40 homes listed on such sites. Anecdotally, some investors, particularly foreign investors, may choose to leave their rental properties empty given low yields and risk of costs, instead bide their time on capital gains. Identifying and encouraging the use of empty homes may add to housing supply.³

Part of the housing shortage has appeared because the resources to build homes are directed towards larger homes. Between the 2006 and 2013 censuses, over 85% of the increase in the housing supply was for large homes (4 bedrooms+), but all the growth in demand was from 1 and 2 person households. This is a common challenge across New Zealand and requires lower land prices and greater density requirements to encourage supply of smaller homes. This would both be more right for local demand, as well as freeing up land and labour capacity to build.

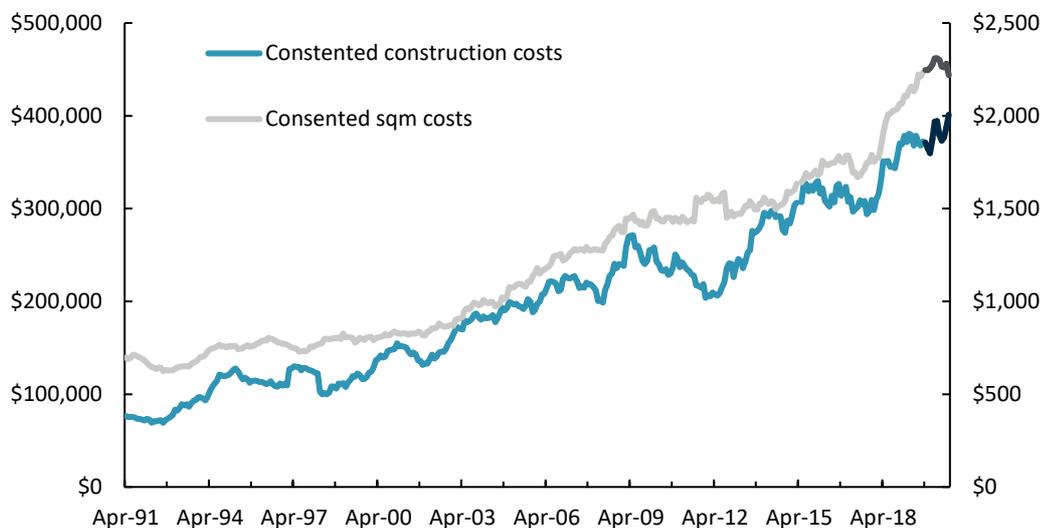
² Statistics New Zealand does not show where across the district new builds are occurring.

³ For example, the UK government New Homes Bonus set out to match any council tax on a property that previously was empty. Others have called for a tax on empty homes.

The development economics remains challenging

While the cost to build in Gisborne is comparable to national rates, the cost of a new home is very high compared to prices of existing homes. The cost of land plus build cost (excluding infrastructure, consenting and other costs) for an average new home cost around \$550,000 compared to buying an existing house for around \$350,000. Figure 12 shows consented building costs – about 75 percent of building costs and excluding land – are growing rapidly.⁴ Between September 2019 and August 2020 sqm costs have slightly decreased after reaching a peak on February 2020 while construction costs have reached a new all-time high. Costs have increases have abated a little since February.

FIGURE 12: CONSENTED CONSTRUCTION COSTS ARE GROWING



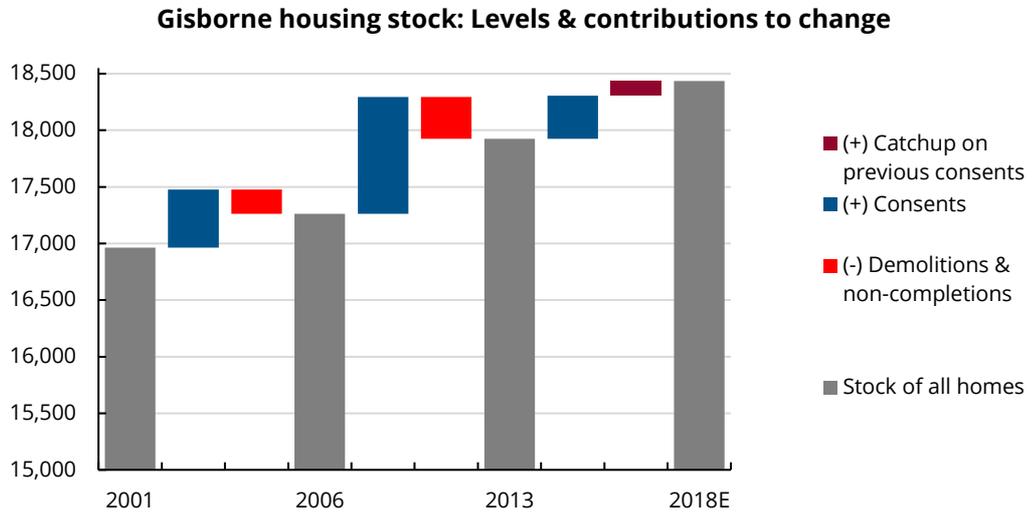
The average consented construction cost per square metre in Figure 12 at September 2019 is \$2,250 for 75 of build costs or around \$3,000 a square metre for total costs. But not everyone builds at average costs. Some will build smaller dwellings (around 100-120 metres) on whanau land avoiding land costs for total costs of between \$225,000 to \$250,000. This analysis implies higher build costs for other properties to offset the market fraction building at lower costs.

This high build costs means that for a prospective buyer, from a purely price perspective, the incentive is to chase an existing home rather than a new build. Current market conditions are not conducive to significant increases in housing supply, unless land or other costs fall, or those supplying houses have other incentives.

⁴ Consented construction costs are well-known to understand construction costs by omitting earthworks and section development costs, builders' profit, finance, consultant fees (about 25 percent of new build costs). See <https://www.hud.govt.nz/assets/Urban-Development/NPS-UDC/595209f7f3/National-Policy-Statement-on-Urban-Development-Capacity-Price-efficiency-indicators-technical-report-Price-cost-ratios.pdf>

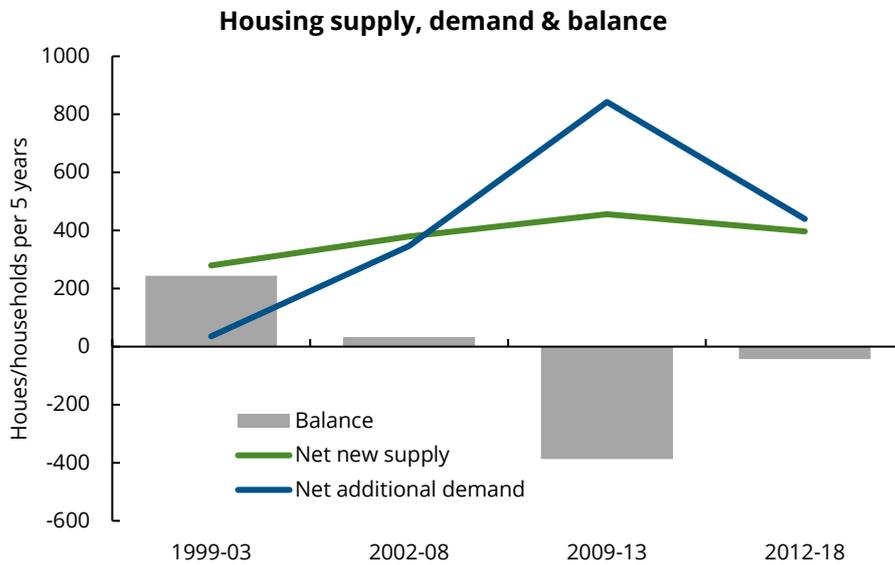
Stakeholders noted anecdotally, challenges in securing labour and infrastructure bottlenecks, which have also slowed housing supply.

FIGURE 13: GISBORNE HOUSING GROWTH HAS BEEN SLOW



Source: Sense Partners calculations from Statistics NZ data

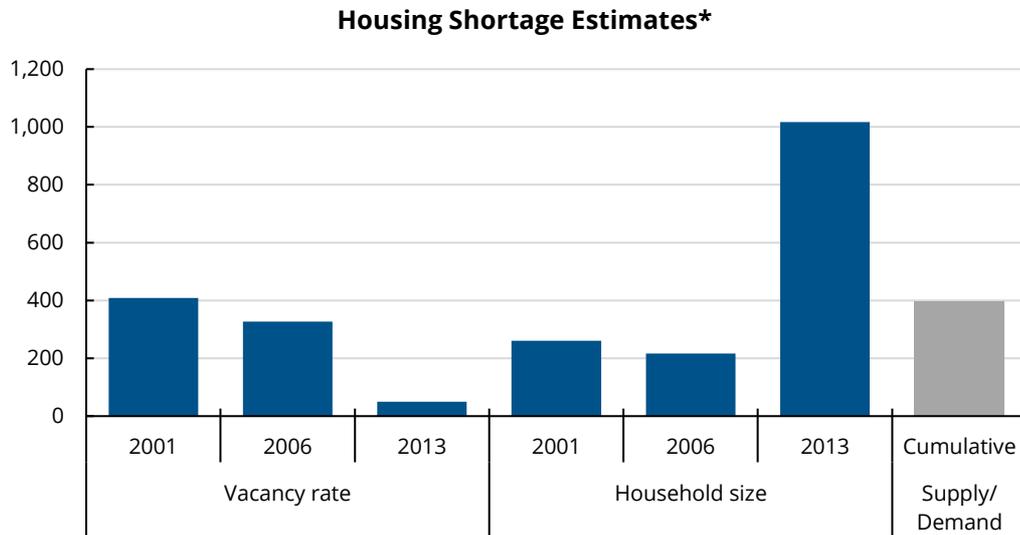
FIGURE 14: THERE IS A CUMULATIVE SHORTAGE OF HOUSES, AS SUPPLY HAS NOT KEPT PACE WITH DEMAND



Source: Sense Partners calculations from Statistics NZ data

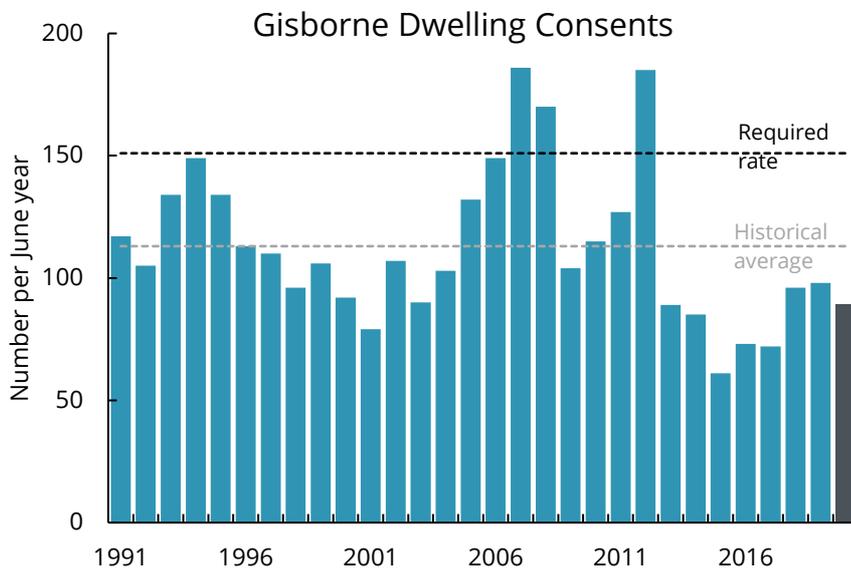
The proposed A&P development at Showgrounds Park will help indirectly by relieving some pressure on the broader housing market but will not a panacea. Broader reforms are needed.

FIGURE 15: 2020 HOUSING DATA SHOWS NO IMPROVEMENT ON OUR ESTIMATE OF A SHORTAGE OF 400 UNITS



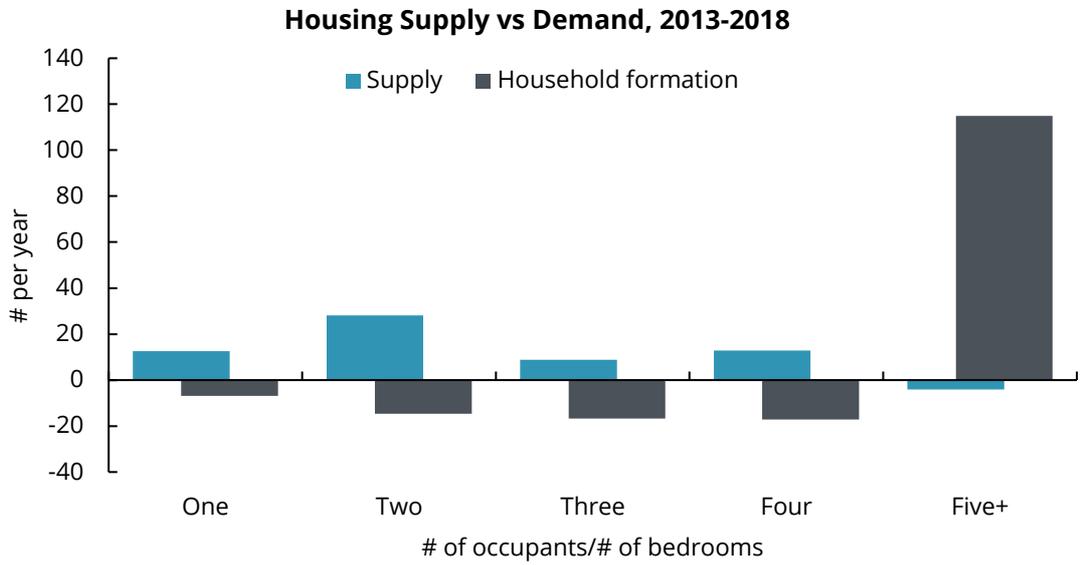
Source: Sense Partners calculations from Statistics NZ data (*by estimating housing stock if previous historical states had prevailed)

FIGURE 16: DWELLING CONSENTS FOR 2020 ARE BELOW 150 PER YEAR NEEDED TO MAKE PROGRESS



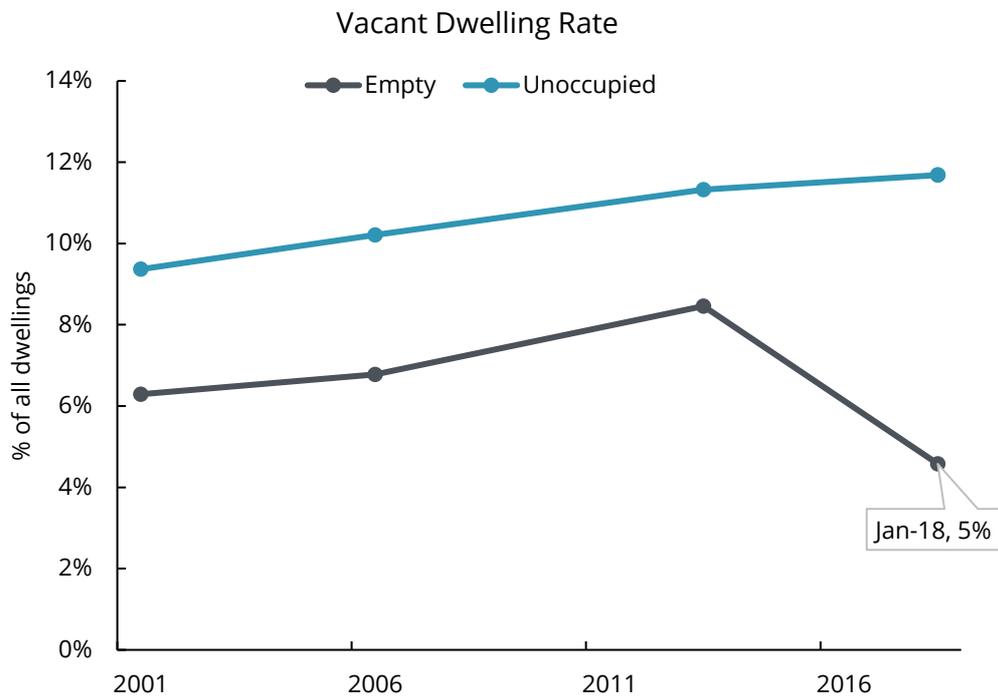
Source: Statistics NZ

FIGURE 17: HOUSING SUPPLY IS 85% 4 BEDROOM+; DEMAND IS ALL 1 & 2 PERSON HOUSHEOLDS



Source: Sense Partners calculations from Statistics NZ census data, 2020 is unavailable

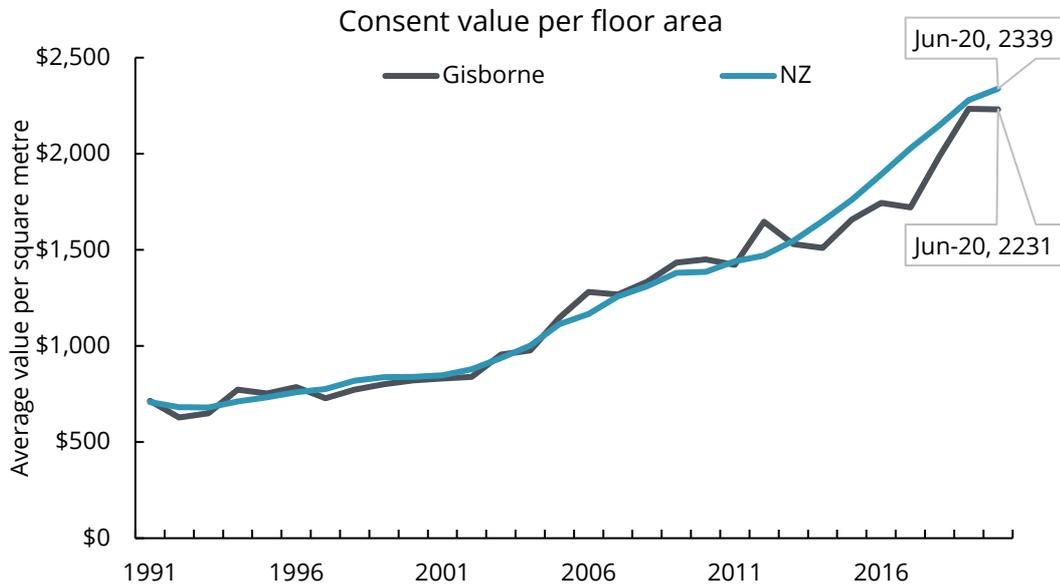
FIGURE 18: RISING VACANT DWELLINGS NEEDS FURTHER EXPLORATION



NB Empty homes and unoccupied dwellings are based on census questions. Unoccupied dwelling includes if the residents are away on census night or the dwelling is permanently empty.

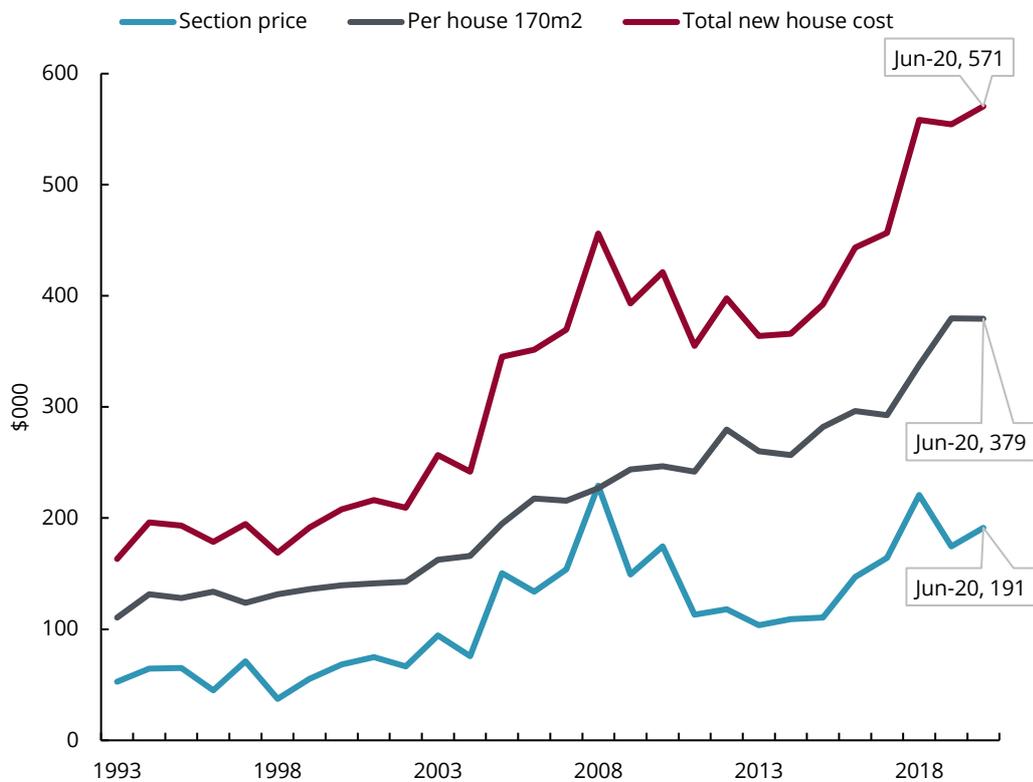
Source: Sense Partners calculations from Statistics NZ census data, 2020 is unavailable

FIGURE 19: GISBORNE CONSTRUCTION COSTS REMAIN SIMILAR TO NZ AVERAGES



Source: Sense Partners calculations from Statistics NZ data

FIGURE 20: COST OF NEW BUILDS REMAINS HIGH COMPARED TO EXISTING HOMES



Source: Sense Partners calculations from Statistics NZ and REINZ data for Gisborne District

4. Housing affordability declined in 2020

- House prices are very high relative to incomes
- Average rents are affordable
- But masks distribution issues

Median house sales price in Gisborne averaged \$407,957 in the year to June 2020, compared to \$622,583 nationally. This makes Gisborne relatively affordable for those looking to buy compared to many other regions despite the 16 percent increase over the past year.

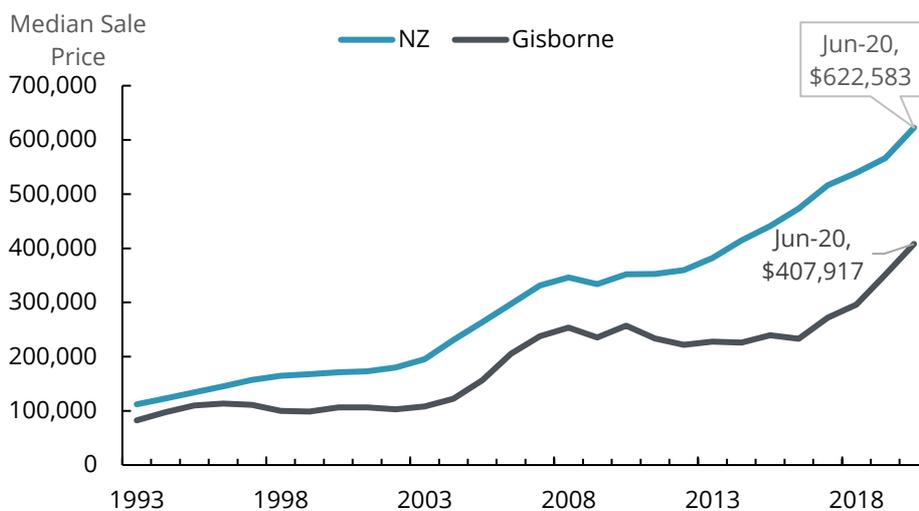
But the prices are high relative to local incomes. The median house price is around 9 times the average household income in Gisborne. Historically, house prices below 4 times incomes were consistent with increasing home-ownership rates.

The high house prices present a barrier to putting together a deposit to buy a home. A 20% deposit is over \$70,000 today. To have saved that deposit, a typical household would have needed to save 5% of their gross income (and kept that money invested in markets) from 2000 – it would have taken 19 years of disciplined savings. So expect people to rent not to buy.

The mortgage repayments are relatively affordable, especially at current very low interest rates. Progressive home-ownership products, for example those delivered by the New Zealand Housing Foundation may be suitable for the region. We should not consider home ownership as a readily attainable target.

Rents appear relatively affordable in the region, taking around 28% of the renting household's incomes. However, the high prevalence of accommodation supplements in the region and other signs of housing stress suggest the averages may be masking distribution issues.

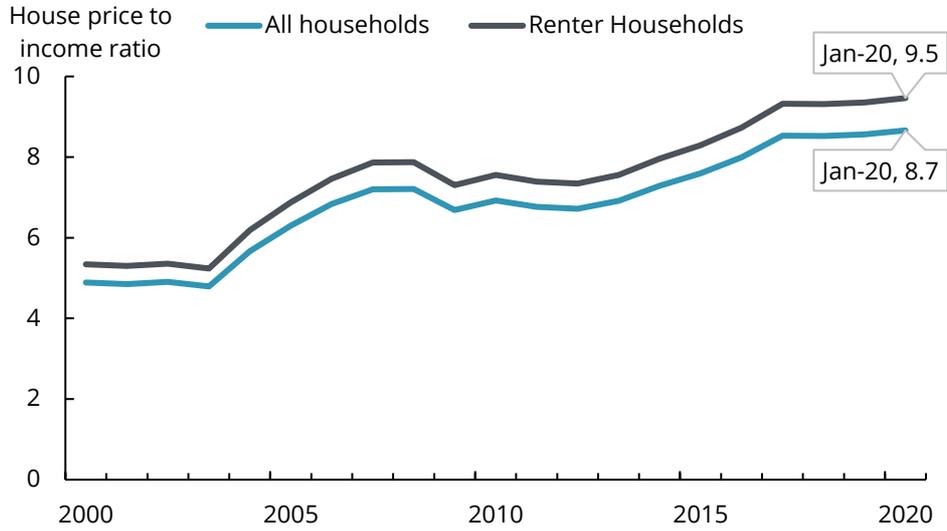
FIGURE 21: HOUSES GISBORNE ARE RISING SHARPLY – UP 16 % TO JUNE, 2020



Source: REINZ

FIGURE 22: HOUSE PRICES REMAIN VERY HIGH RELATIVE TO INCOMES; A 20% DEPOSIT WOULD TAKE NEARLY 20 YEARS SAVING 5% OF HOUSEHOLD INCOME

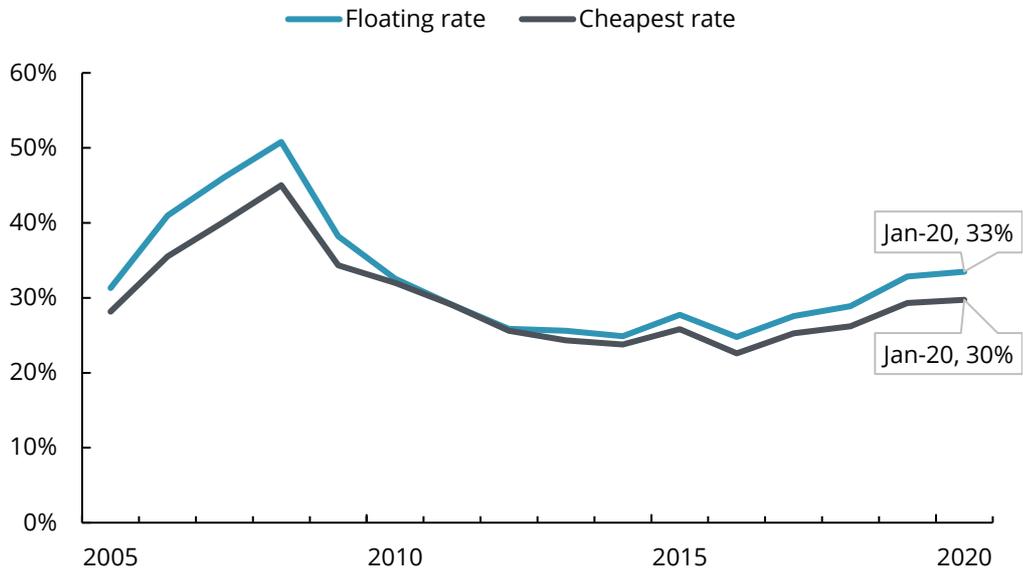
Gisborne house price to income ratio



Source: Sense Partners calculations from Statistics NZ, REINZ and MBIE data

FIGURE 23: LOWER INTEREST RATES MAKE MORTGAGE PAYMENTS MORE AFFORDABLE

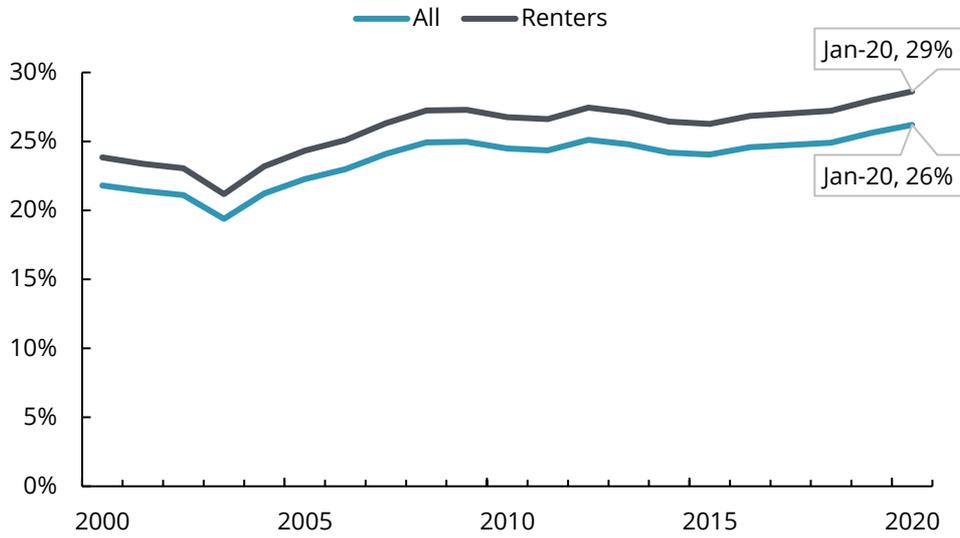
Gisborne mortgage payment share of income



Source: Sense Partners calculations from Statistics NZ, RBNZ, REINZ and MBIE data

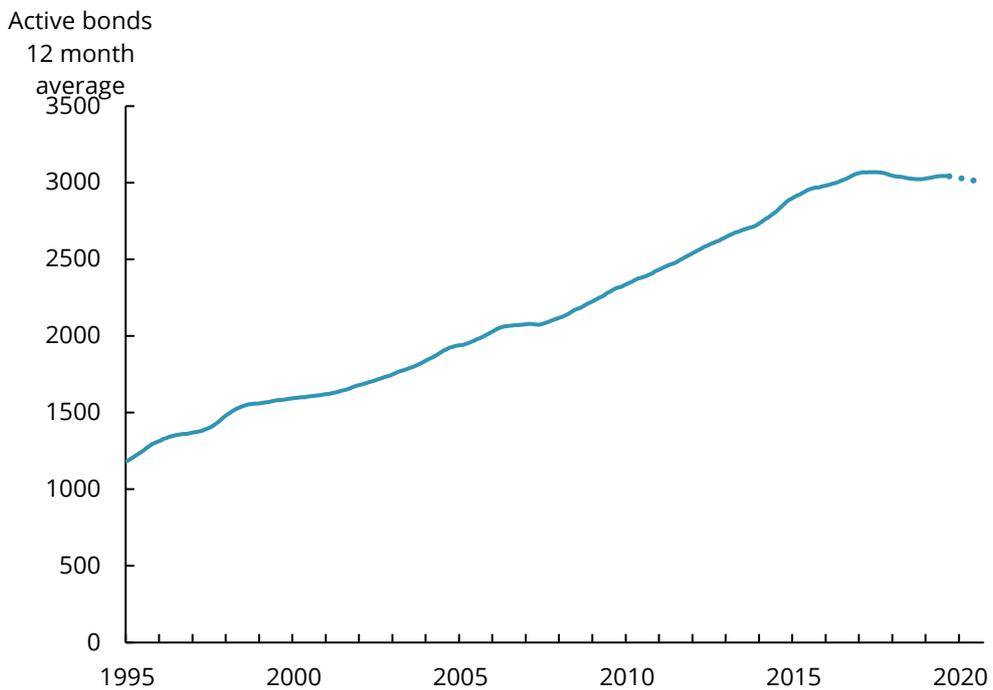
FIGURE 24: RENTS APPEAR AFFORDABLE TOO, BUT DOES NOT MATCH SIGNS OF HOUSING STRESS IN OTHER INDICATORS

Rent share of income



SOURCE: SENSE PARTNERS CALCULATIONS FROM STATISTICS NZ, RBNZ, REINZ AND MBIE DATA

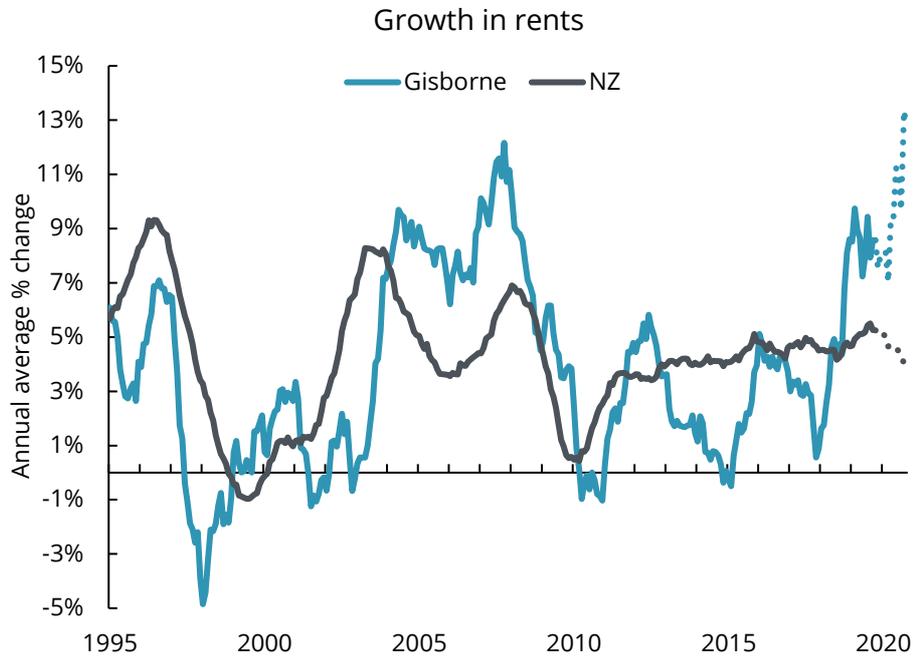
FIGURE 25: THE RENTAL STOCK DECLINED IN 2020



NB Many rentals do not have an associated bond lodged so the indicator is best used to describe change over time rather than the extend of the rental market.

Source: MBIE

FIGURE 26: RENTS ARE SPIKING IN GISBORNE GROWING FOUR TIMES FASTER THAN THE NATIONAL AVERAGE IN 2020



Source: MBIE

Through many lenses, housing need in Gisborne is acute. Without change, expect growing population demand to only exacerbate the impact of housing supply that has been slow to respond.

Opportunities for impact appear centred on the social end of the housing continuum. Expect changes to the broader private housing market to require long-term interventions and take longer periods of time to realise.