New apartments at Alexandra Park, Greenlane

Maturing market reflects demand

Welcome to our first Auckland Apartment Research Report. We have been consulting and reporting on various commercial markets for 20 years in Auckland for our commercial occupier, developer and investor clients, and during most of this time these groups have had little or no interest in the residential market. However, since 2008 especially, developers in search of projects (who had found little demand from commercial or industrial occupiers), turned in greater numbers to residential developments, where demand is more consistent. As a result, despite the recent resurgence of commercial development, a significant proportion of our consultancy advice is now in the residential space. Our residential project marketing business is also growing, bringing with it an appetite for reliable research input.

Our databases are now substantial, and our market monitoring well-established.

Key Findings

- Purchaser demand is highest in central Auckland locations reflecting apartment residents' requirement for good, nearby amenities. This matches the pattern of office demand, where convenient, accessible locations are also in high demand.
- The pace of development in the CBD is almost keeping pace with projected CBD population and employment growth, unlike the broader residential market where supply is running well behind population growth forecasts.
- Apartment supply has been boosted by recent sale price increases. This allows developments to become feasible at land values that equal or exceed values for alternative uses, such as offices. Ironically, the price of accelerated supply is increasing unaffordability.
- Robust price increases are being driven by steady demand along with low debt costs, high net immigration, and confidence in the economy.
- No price slowdown is expected in the short term. However, overall residential annual price escalation over the last 20 years in Auckland has been 7.4% on an annual compounding basis. This is much lower than the 11.2% pa over the last five years, calculated on the same annual compounding basis. In the medium term, markets usually revert to trend.
- Across the city, there were around 24,945 apartments in 379 buildings at the end of June 2015. By the end of 2018 we estimate an extra 6,601 units will be housed in a further 80 buildings, averaging 82 units per development. At that time there will be 459 apartment buildings in total, averaging 69 units each.
- The extra 6,601 units include 1,112 student accommodation apartments.
- By the end of 2018 that means 31,546 apartments, including student accommodation, will exist across the city. Of these, 20,472 (or 66%) will be in the CBD, 5,969 in the city fringe (19%) and 5,105 in suburban locations (15%).
- Demand is well-balanced, with a much higher proportion of owner-occupiers than in the 2003-2006 construction boom when most of the CBD product was aimed at investors.
- New apartment product commands the highest selling price per square metre of any dwelling typology. This is frequently more than $10,000/sqm gross (including GST) as opposed to typically $5,000 to $7,000/sqm for terraced typologies, or large detached new homes.
- The risk of over-supply is slim, with pre-selling hurdles providing a useful self-correcting mechanism. That is, where a planned development fails to sell 50% or more 'off the plans' it will usually be abandoned, deferred, or re-designed to better match buyers' preferences.

By the numbers

- 6,601 new apartments will be completed across Auckland from the second half of 2015 to the end of 2018.
- 44% of the new city-wide apartment supply in this period will be in the CBD, 28% in the city fringe and 28% in the suburbs.
- There will be 20,472 CBD apartments by 2018, up from 17,395 at the end of 2014.
- 640 apartments per annum are needed in the CBD. Supply is on track from 2015 to 2018, but 2013 and 2014 only added 62 apartments to the stock.
- The three bedroom median apartment price Auckland-wide exceeds the three bedroom non-apartment median price.
- In the CBD, 22% of existing stock is studio apartments with no separate bedroom. Only 7% of new stock is studios. Apartment sizes are increasing as the market matures.
- The purchaser, at least, can afford the apartment they have bought, but it is hard to develop three bedroom apartments (or even high quality, city centre two bedroom units) at the definition of affordable - 75% of the Auckland median price.
- 1,332 CBD apartment completions, including student accommodation, in 2016 will exceed 2017 and 2018 completions if the developments meet their expected completion dates.
- $319,000 buys a new 30 sqm studio apartment, the smallest apartment currently being offered for sale.
- Typical CBD apartment internal areas for stock due to be completed in the next few years are 45 sqm to 60 sqm for one bedrooms, 70 sqm to 90 sqm for two bedrooms, and 90 sqm to 120 sqm for three bedrooms.
- Some luxury developments offer much larger apartments from around 100 sqm for a one bedroom up to 260 sqm for a three bedroom unit.
- Whatever the size or typology, the majority of new developments are seeking GST inclusive prices applied to the internal area of at least $8,000/sqm, with many over $10,000/sqm.

Supply

Playing catch up

The chart below left illustrates periods of dramatically different supply. Nearly half the CBD's existing apartment stock was built between 2003 and 2006, significantly more than is planned in 2015 to 2018. However the volume of suburban stock to be built in these four years exceeds any previous period.

The chart doesn't show apartment development in the pre-2000 period. From the 1920s until the end of the twentieth century, we calculate that 6,230 units were built.

By the end of 2018 that means 31,546 units, including student accommodation, will exist across the city. Of these 20,472 (or 66%) will be in the CBD, 5,969 in the city fringe (19%) and 5,105 in suburban locations (15%).

From mid 2015 that's an increase in the total number of apartments in the CBD of 17%, in the city fringe of 45%, and in suburban locations of 57%.

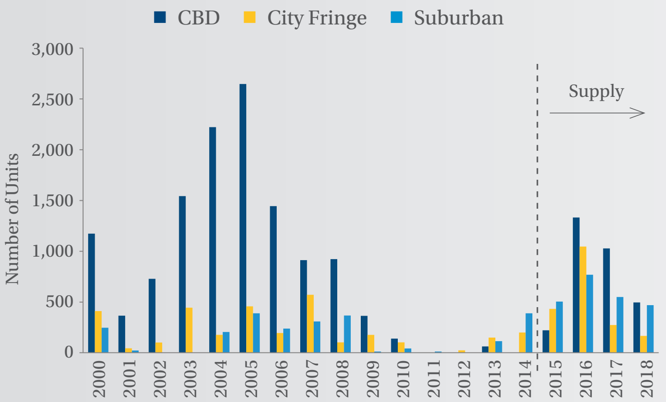
Apartment supply has been boosted by recent sale price increases. This is allowing developments to become feasible at land values that equal or exceed values for alternative uses, such as offices. Ironically, the price of accelerated supply is increasing unaffordability.

By the end of 2018 we estimate these extra 6,601 units will be housed in a further 80 buildings, averaging 82 units per development. At that time there will be around 459 apartment buildings in total, averaging 69 units each.

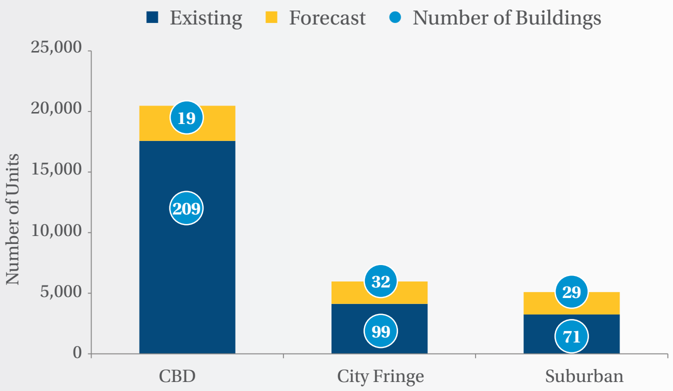
This supply is not evenly spread. 1,332 CBD units are scheduled for completion in 2016 but only 496 in 2018. If you are thinking of buying or renting, it might be best not to wait until 2018.

Estimating supply involves making judgements on which developments will go ahead - and when. Some are not designed and many do not have a resource consent, so there is an element of subjectivity in the forecasts.

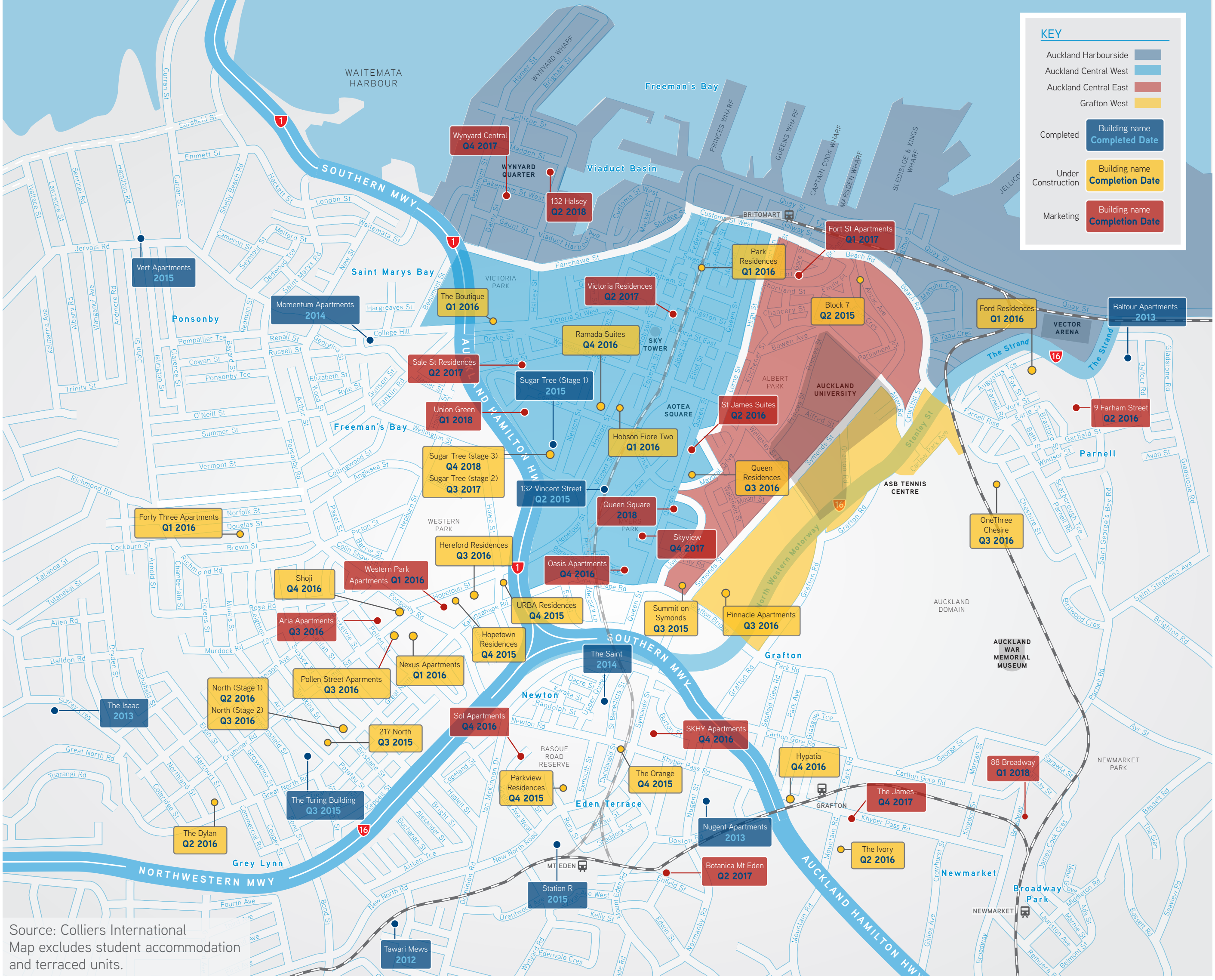
Auckland apartment supply by location



Auckland apartment unit stock and new supply



Source: CoreLogic & Colliers International Research
Note: only apartments that are complete, under construction or in the marketing/design stage are included. Terraced units are excluded.



Source: Colliers International
Map excludes student accommodation and terraced units.

Demand

All about growth

Statistics New Zealand anticipates Auckland's CBD population to be approximately 53,000 by 2031 - nearly double what it was just two years ago. Assuming a stable average household size of 2.0 people, that requires another 11,500 dwellings (or 640 per annum), to keep pace with that prediction.

However, since the 2013 census data was made available, market demand has continued to expand to the point where medium term projections now look conservative.

In particular, immigration has repeatedly reached record levels with the majority of the annualised 56,800 net migration settling in Auckland. One notable piece of data from April 2015 was that, for the first time in 24 years, more Australians migrated to New Zealand than vice versa.

Of the 6,601 new apartments likely, 2,901 will be in the CBD. This copes with the 640 per annum requirement in 2015 to 2018, but despite that our analysis suggests supply will have to be accelerated to keep pace with demand in the medium term. The equation is not helped by low levels of completion in 2013 and 2014 which together saw only 62 units completed, so we are already playing catch-up. Net immigration to Auckland alone is more than 2,000 people a month, with another 1,000 or more due to the excess of births over deaths.

Demand by typology

The market matures

Since 2012, more than 86% of all apartments sold in Auckland have been one or two bedrooms. In the same period, more than 81% of all residential dwellings sold were three or four bedrooms, with more five bedroom (9.6%) than two bedroom (9.2%) dwellings.

The CBD apartment market is slowly maturing as it moves from the student based market of the early 2000s. It is accommodating more professionals and families keen to take advantage of the growing CBD amenities, avoiding travel time and costs, and reduced maintenance.

The average age of enquirers to the higher end CBD and fringe developments that are now being marketed is around 60 years. While this cohort doesn't need bedrooms for all the family, they do seek some room. In this context it is interesting to note that one and two bedroom typologies still dominate (at 52% and 32% respectively in the buildings under construction or being marketed), the more expensive developments. These are typically aimed at this owner-occupier cohort, that has a higher proportion of three bedroom products.

Studios are becoming far less popular in line with this process of maturation. Approximately 22% of existing CBD stock is studio typology, with no separate bedroom, but only 7% of known future stock will be studios.

Looking at Auckland-wide medians it is noteworthy that for the three month period ending June 2015, median one and two bedroom apartment prices were well under median non-apartment prices. However the median three bedroom apartment price of $875,500 was well over the median non-apartment three bedroom price of $700,000 for that quarter.

Pricing

Affordable is not the developer's choice

Proving demand measured by population and employment growth is one thing, but that demand will not be satisfied unless the people who make up that total demand can afford to buy or rent the product created.

Of the developments currently on the market in the CBD, asking prices vary from $7,600 to over $20,000/sqm, including GST, if any. Asking prices for some luxury or penthouse units are even higher. Our analysis calculates the price based on the internal area only, excluding decks or balconies.

Of the 16 developments in this category, only five have studio units with prices varying from $290,000 for a 35 sqm unit to $568,000 for a 33 sqm unit.

At the other end of the scale, three bedroom apartments vary from around $700,000 to more than $3million, with most non-penthouse levels at around $900,000 to $1.5million. Pre-sales and the amount of recent sales activity, attest to the affordability at these price levels, by at least one person – the purchaser.

Investment

Rental returns to stay low

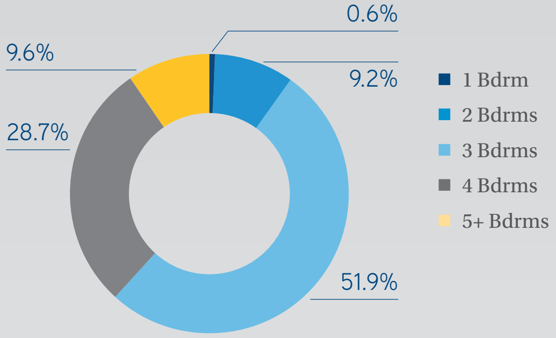
The relationship of median price to median rent in the Auckland market overall, and compared to all of New Zealand, is illustrated in the charts to the right.

It can be seen that total returns in Auckland have only improved markedly recently, compared to New Zealand overall. The effect of increasing sale prices has the effect of decreasing income (or rental) returns but increasing capital returns.

Auckland investors seem to be content to accept a low income or rental return. In comparison with commercial property income returns at the time of acquisition of say 5% to 8% per annum, the overall annual income return of 3.1% per annum for Auckland seems unattractive.

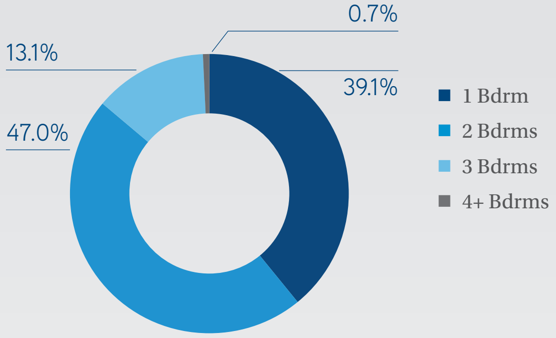
However, while capital growth remains strong, see lower chart, and the ability of renters to pay higher rents is limited, landlords will tend to continue to match borrowings with net rent. They will target a cashflow neutral position, keeping their tenants happy and the rent flowing and wait for a windfall capital gain on sale.

Residential dwelling sales by typology - 2012 to Q1 2015



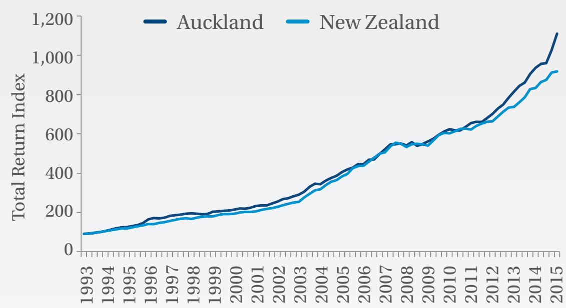
Source: Colliers International Research & CoreLogic

Apartment sales by typology - 2012 to Q1 2015



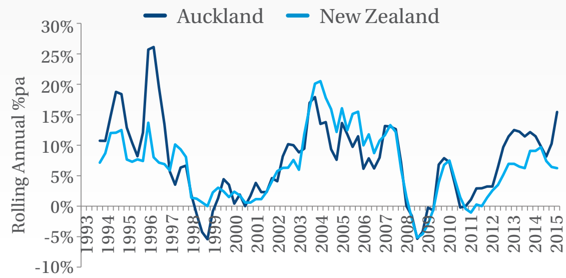
Source: Colliers International Research & CoreLogic

Residential total returns



Source: Colliers International Research, REINZ & MBIE

Residential capital returns



Source: Colliers International Research, REINZ & MBIE

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