

An aerial photograph of a coastal town and beach. The town is built on a hillside overlooking the ocean, with numerous houses and buildings. A road curves along the coast. The beach is sandy and has several people, some with colorful surfboards. The water is blue and green, with waves breaking on the shore. In the distance, there are mountains under a clear sky.

Southland Housing Situation Analysis

October 2021

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Introduction

This report updates analyses prepared by Venture Southland in August 2018. It provides an overview of the current and anticipated housing growth challenges for the Southland Region.

The Southland Regional Development Strategy sets a target of growing the regional population by 10,000 people to live in Southland. However, consultation throughout the development of the Strategy recognized the pressures such a growth would impose on the limited housing stock available in the region.

This report considers the critical challenge of building stock availability in Southland, and the role of the tourism (accommodation), rental and property market as key drivers of availability. This report is a step toward undertaking a more in-depth supply and demand review. Through this review, Great South has accessed the following data sources:

- Building consenting data from
 - o Gore District Council
 - o Invercargill City Council
 - o Southland District Council
 - o Statistics New Zealand
- Uptake of peer-to-peer accommodation providers, including
 - o Air DNA (Airbnb properties)
 - o HolidayHouse.co.nz
- House price and rental price from,
 - o Tenancy Services
 - o QV House Prices
 - o Homes.co.nz
- Housing reviews commissioned by the New Zealand Government
- Emergency housing data from:
 - o Ministry of Social Development
 - o Ministry of Housing and Urban Development.

Drivers of Housing Demand

Through the 2018 report, the following drivers of demand for housing were identified:

Driver of Demand (2018)	2021 Update
Population growth	Data presented by Infometrics (2021), estimates that the population for Southland has grown to 104,400. Considering this growth in population and the estimated current housing stock, we believe Southland is currently 1,659 houses short to effectively house our population.
Demographic changes, including ageing population	<p>It is proposed that an ageing population will look for smaller, warmer property.</p> <p>Currently over half of the housing stock in Southland (52.4%) is three-bedroom homes (Stats NZ 2020). Yet demographic forecasts by Statistics New Zealand show a strong growth in the older demographics across Southland, and within Gore District, where the 75–80 and 81–84 age groups are likely to be the largest portions of the population by 2043.</p> <p>As such, future analysis should consider how housing stock is suited for this demographic, noting the limited number of 'retirement' villages being constructed (Figure 2).</p>

Ageing housing stock	As mentioned above, there is an undersupply of property so a reluctance to replace building stock. Hence, the continued increase in housing stock age and deteriorating condition needs to be carefully considered. Limited data are available to measure this materially.
Increased tourism growth and seasonality of this.	Wide reaching impacts of the COVID-19 pandemic have provided short term relief from the pressures of tourism growth on sub regional housing stock. This effect has not been consistent across the region, with destinations such as Rakiura Stewart Island experiencing little reduction in tourism pressure. However, where there has been a downturn in tourism, there is less demand for staff accommodation, and some short-term rentals are being converted to longer term rentals. We expect this to be short lived.
Growth of Airbnb reducing availability of rental properties	<p>Prior to Covid-19, growth in Airbnb and other platforms had increased significantly across all the sub regional areas we monitor. This was likely driven by two factors:</p> <ul style="list-style-type: none"> - Reduction in rental property yields and higher returns through Airbnb - Strong tourism market <p>More recently, across the region, the number properties used for Airbnb has decreased by 233 properties, or 22%. This reduction is like levels seen in late 2018. A similar reduction can be seen on HolidayHouses.co.nz data.</p>
Lifestyle and holiday house development	We have limited measures available to understand the regional distribution of holiday houses and lifestyle development. However, we are seeing increasing numbers of commuters into main urban areas from areas with high proportions of holiday houses, e.g., Riverton and Colac Bay, due to housing shortages in urban areas such as Invercargill.
Business growth of large companies and future workforce demand	Ongoing workforce planning is being undertaken to support the development of large industry throughout Southland. This could include data storage facilities and hydrogen generation. The current undersupply of property in Southland means that access to property (rental or purchase) will continue to be a constraining factor for growth.
Emergency and social housing	Since the previous report in 2018, we have seen a decrease of 4% or 15 homes in the number of public house tenancies across the Southland Region. At the same time, an increase in demand has jumped from 59 on the Housing Register in 2018 to 202 in 2021 – an increase of 242%.

These factors have been the basis of this report. We provide further evidence below for the likely interplay between these factors, which has ultimately led to a significant under supply of property in the Southland region.

Current Demand

Demand for property in Southland is driven by three factors:

1. Migration
2. Servicing seasonal employment in large industries
3. Tourism and short-term accommodation requirements

Baseline Assumptions

Statistics New Zealand provides a count of occupied dwellings each census night. We have considered the ratio of the number of dwelling to population at every census since 2001. This relationship is shown in Figure 1 below.

Figure one shows that the likely rate of building and rate of population growth were approximately equal in 2001, 2006 and 2013. Since then, the population has grown exponentially, while occupied dwellings have grown at a net increase of 237 dwellings per year.

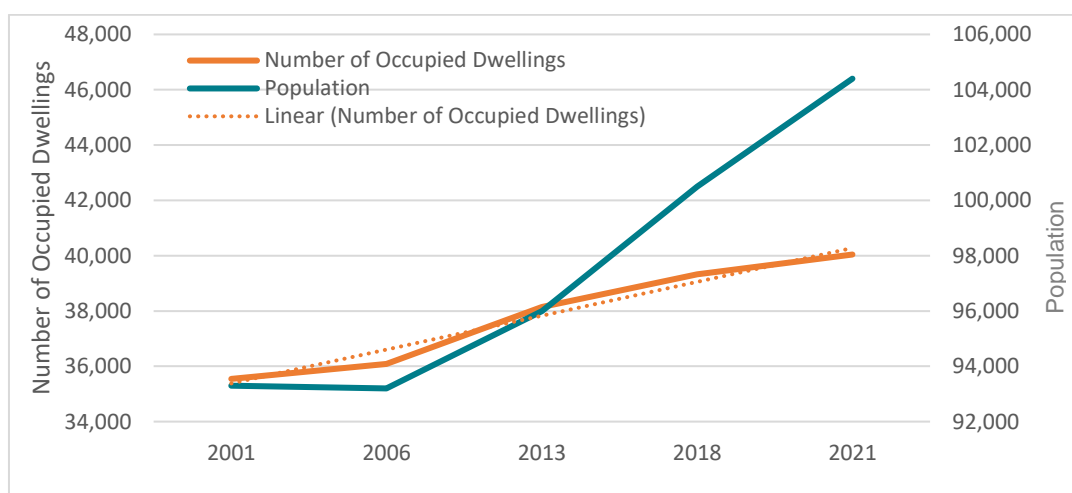


Figure 1: Occupied Private Dwellings (Statistic New Zealand) against population

Table 1: People per dwelling (Statistics New Zealand)

Census	Number of Occupied Dwellings	Population	People Per Dwelling
2001	35,544	93,300	2.62
2006	36,084	93,200	2.58
2013	38,145	96,000	2.52
2018	39,330	100,500	2.56

Building off the assumption that in 2013 housing stock was an appropriate level to house the region's population (i.e., rate of build was equal to rate of population growth), we consider the period between 2013 and 2021, as follows:

- An increase in population of 8,400 people from 96,000 to 104,400 (as reported by Infometrics)
- To service this, 3,333 houses, need to be constructed assuming 2.52 people per dwelling (2013 ratio).
- Between 2013 and 2018 census a net increase of 1,185 houses has been shown by census data. If we assume the constant rate of net growth stands at 237 houses per year, it is estimated that a further 474 houses have been fully constructed. Therefore 1,674 houses have been constructed.
- At the time of writing there is therefore a calculated **shortfall of 1,659 houses** in Southland.

It is expected that immigration will continue to grow throughout Southland. This will be driven by the return of ex-patriate New Zealanders, the ability for staff to work 'remotely' and housing demand and pricing in other major centres.

Industries and seasonal employment

Growth targets of major industries and workforce requirements of industries coupled with the relatively low unemployment rate (3.3% Q2 2021) of the region, means that workforce planning must include how effective housing of that workforce will be achieved.

This issue particularly applies in industries which require seasonal employment, such as dairy and tourism. In the case of tourism, limitations in staff housing have had a slight reprieve, with the impacts of COVID19 reducing the numbers of staff and additional holiday/Airbnb properties becoming available on the rental market¹. Destinations such as Rakiura Stewart Island have not had this same relief, with similar numbers of properties listed on Airbnb as in January 2020 and significant shortages in staff accommodation as reported through the media (Rowe, 2020).

Current Supply

Data sourced from Statistics New Zealand and the three District Councils provides some insights into the number of residential dwellings consented for construction. It is important to note that these estimates are consented work as opposed to constructed dwellings.

Table 2: New residential properties consented across the Southland Region

Year End May	Southland District (SDC)	Gore District (GDC)	Invercargill City (ICC)	Southland Region (Stats NZ)
2018	169	28	37 ^a	257
2019	176	41	16 ^b	280
2020	204	26	No data	386
2021	167	39	77 ^c	348^d

Interpretation Notes:

Dataset currently incomplete, containing 3 months^a, 1 month^{b,d} and 5 months^c of data respectively

As discussed in the above section, net rate of growth of 'occupied dwellings' is 237 dwellings per year (as shown in census data). When this is compared with the total number of consented properties over this same time period (Table 2, Figure 2) it shows that approximately 75% of buildings are being built new, while 25% are replacing existing building stock, or not being constructed. Of note, Southland, however, had the second lowest ratio of residential building consents to people, at 3.5 consents per 1,000 population (Stats NZ, 2020).

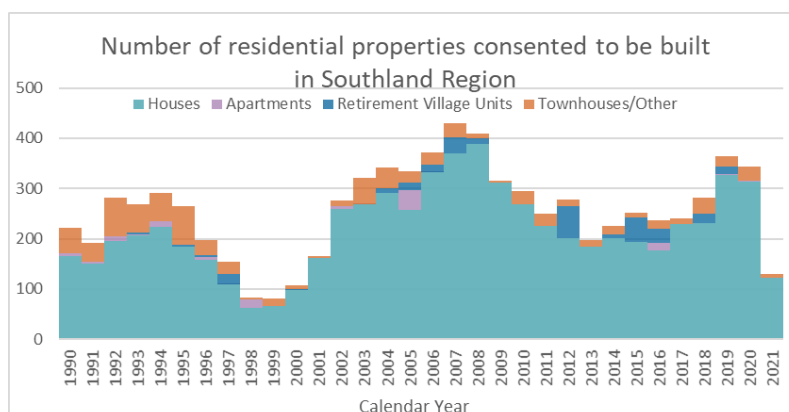


Figure 2: Consented properties, Southland Region (Statistics New Zealand)

¹ Our references show that just over 200 Airbnb properties are no longer listed on Airbnb for Southland, when compared with January 2020

Property value, price, ownership and quality

Southland has followed national trends in property prices, with the median property value as reported by homes.co.nz jumping 18% for the region when compared to the same time last year (Figure 3). Strong growth has been seen in Gore District (29% growth), while Southland and Invercargill City had less growth (18% each). This is most likely due to Invercargill and Southland being in a comparatively strong position in August last year whereas Gore has 'caught up'.

Data provided by REINZ shows that median house sale price is up 8.6% on August 2020 (Table 5). The fast-moving property market, coupled with low interest rates and limited rental properties available most likely been the driver of this uptake in both Southland and Gore, with more people opting to commute into the larger urban centres.

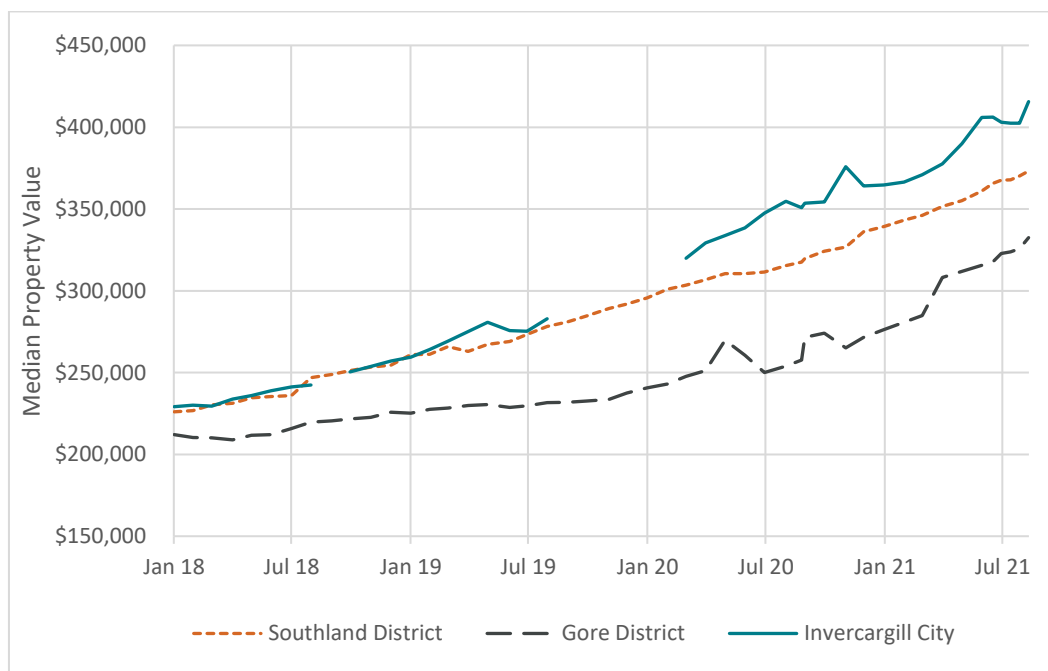


Figure 3: Median property value through Southland (Homes.co.nz)

Table 3: Median Property value through Southland (as reported by Homes.co.nz)

Area	Median Value August 20	Median Value August 2021	Annual Change
Southland District	\$317,569	\$373,215	18%
Gore District	\$257,771	\$332,495	29%
Invercargill City	\$350,802	\$415,637	18%

Table 4 below compares the median sale price of properties, for August as reported by REINZ, to the median property value as reported by Homes.co.nz. Both in Gore and Southland had a median sale price well above the median property value, showing competition in these markets (at 13% and 14% respectively). Invercargill surprisingly did not show this trend.

Table 4: Median Property value through Southland (as reported by Homes.co.nz)

Area	Median Sale Price Aug-21 (REINZ)	Median Value Aug-21 (Homes.co.nz)	Percent Difference
Southland District	\$425,000	\$373,215	14%
Gore District	\$375,000	\$332,495	13%
Invercargill City	\$421,000	\$415,637	1%

Table 5: August 2021 Regional Indicators (REINZ) for property sales

Southland Regional Indicators (REINZ), as at August 2021	
Median price	Up 8.6% compared to same time last year
Sales count	Up 46.8% compared to same time last year
Inventory	9 weeks, which is 6 weeks less than the same time last year
Days to sell	33 days, 11 days less than the 10-year average for March.

Careful consideration needs to be given to the age and quality of housing stock. Great South has undertaken primary research and notes the work of the Southland Warm Homes Trust, EECA and Southland Power Trust in insulating over 8,000 houses (approximately 20% of the housing stock). Yet, newcomers to the region often comment on inadequate heating and insulation. There is a need to ensure that new homes are well insulated and that other factors, such orientation to the sun, are factored into subdivision and house planning.

Rental Market

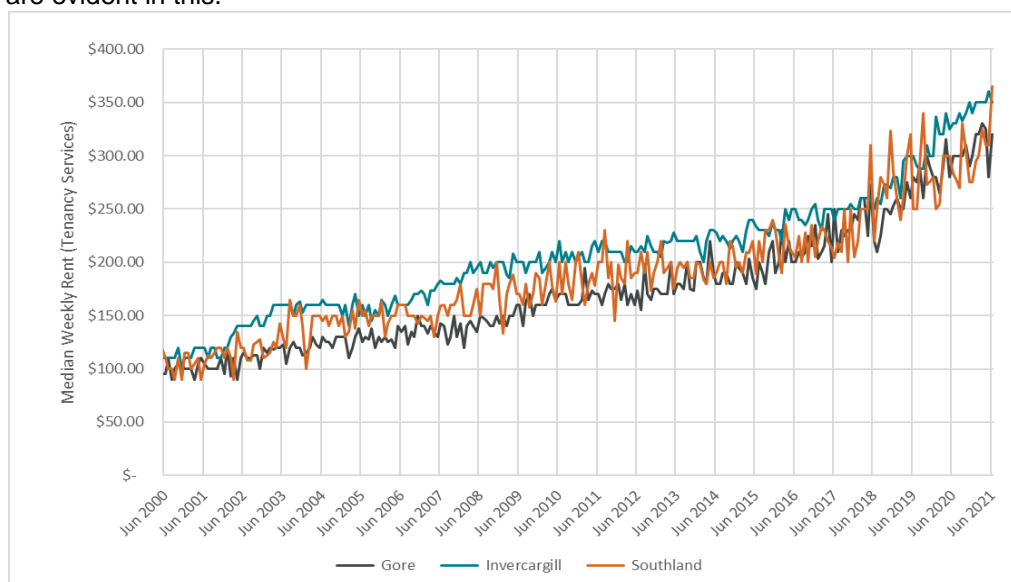
Long Term Rentals

According to Statistics New Zealand, Southland was the most affordable in 2018, with median rent at 11 percent of median household income (Stats NZ, 2020). Since the 2018 census, we have seen median weekly rental price (provided by Tenancy New Zealand) increase as shown below in Table 6.

Table 6: Median Weekly Rent (Tenancy New Zealand)

Median Weekly Rent	June 2018	June 2021	Percentage Change
Southland District	\$220	\$365	66%
Invercargill City	\$250	\$350	40%
Gore District	\$220	\$320	45%

This increase is largely driven by the significant demand for property across the entire region, increase in property price, increase in population and low availability of rental stock. Real estate companies are reporting 20 to 30 people looking at the same property (Rowe and Jackson, 2020). Figure 4 below shows the relative median weekly rental price (right axis) compared to the house price. The volatility in the rental market and tourism accommodation demands, particularly in Southland District are evident in this.

**Figure 4: Median weekly rental amount throughout Southland (Tenancy Services)**

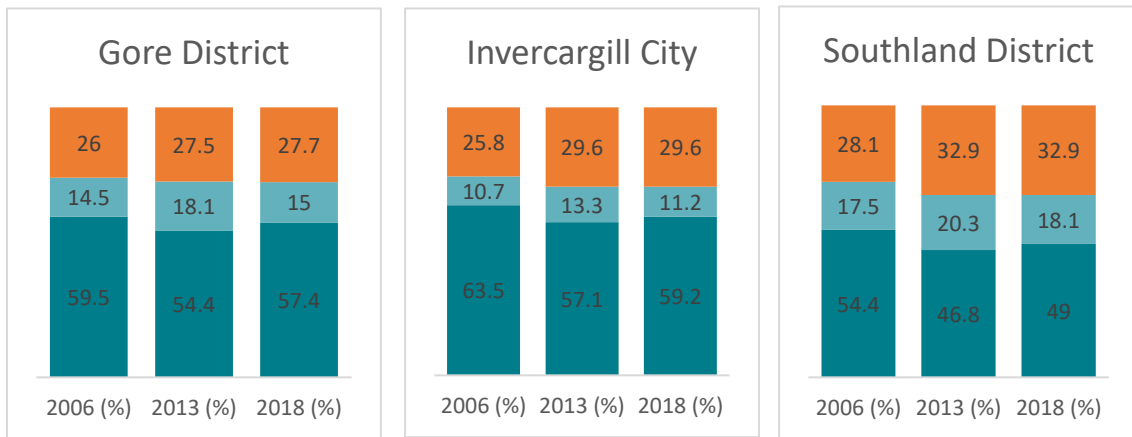


Figure 5: Dwelling Ownership (Statistics New Zealand)

- Dwelling not owned and not held in a family trust
- Dwelling held in family trust
- Dwelling owned or partly owned

Information provided by Statistics New Zealand from the 2018 census showed a decreasing ownership of dwellings across all three districts in Southland.

Short Term and Holiday House Rentals

Great South has monitored the number of properties listed across both HolidayHouses.co.nz and AirBnB.com (provided by Air DNA) for the Southland region and these are shown below (Fig. 6 and 7)

Since 2016, there have been around 200 properties listed throughout Southland on HolidayHouses.co.nz, and just over 1,000 properties on AirBnB.com. While there has been a reduction in properties available on both platforms since the COVID pandemic, this has equated to only around 200 fewer properties available, similar to 2018 levels.

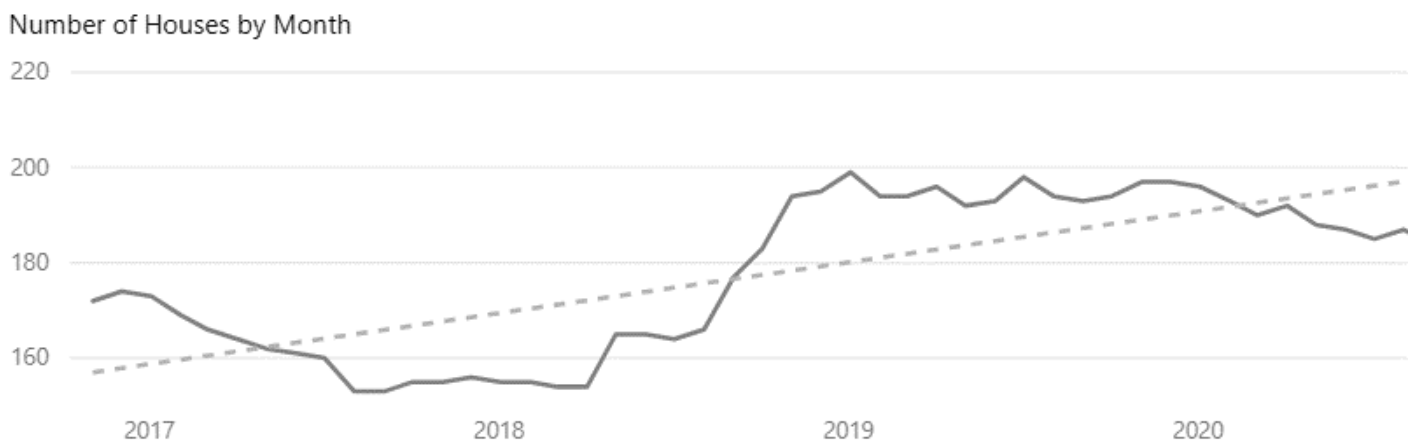


Figure 6: Properties Listed on HolidayHouses.co.nz

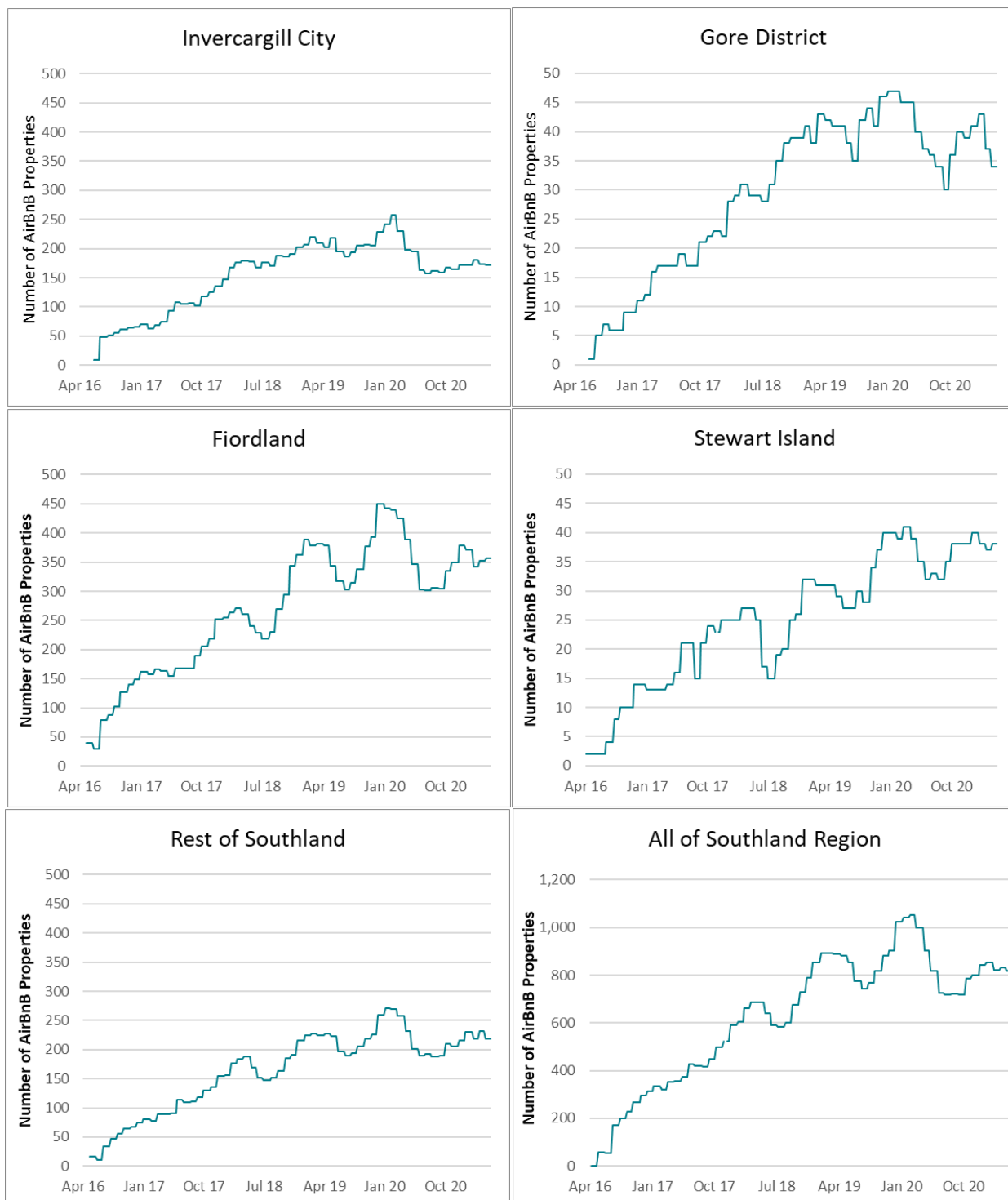


Figure 7: Properties listed on AirBnB.com (Air DNA)

Social and Emergency Housing Demand

Housing Register – December 2020

Based on a review of the Housing Register (MSD, 2020)², the demand for housing throughout the Southland Region has jumped from 59 applications on the Housing Register in 2018, to 202 in 2021, an increase of 242%. Note this is the number of applications and does not necessarily represent the number of people (e.g., families with children) looking for emergency housing.

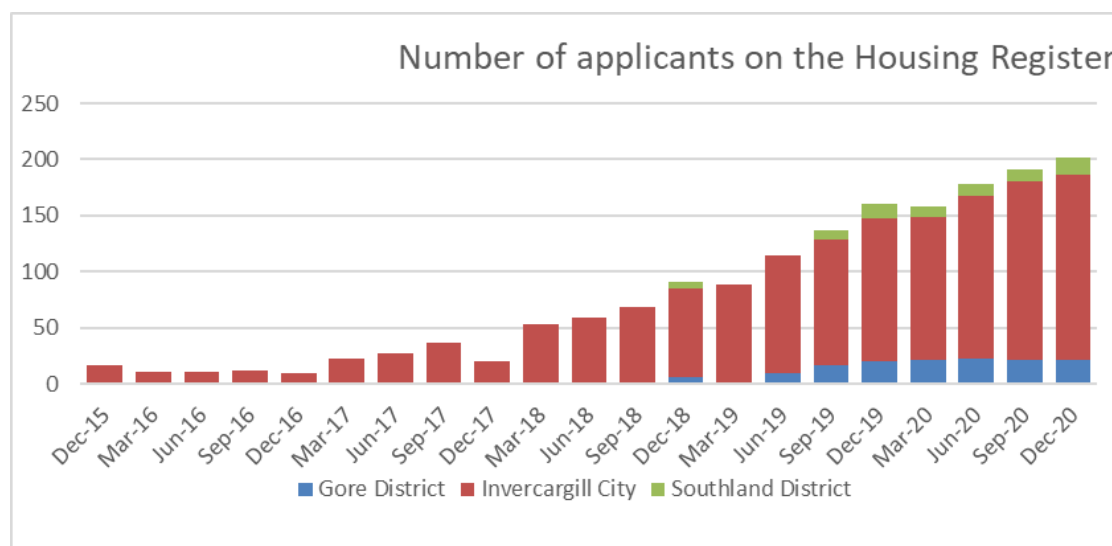


Figure 8: Housing Register (Ministry of Social Development)

Table 7: Regional Insights for Public Housing (Ministry of Housing and Urban Development 2021)

	Gore District	Invercargill City	Southland District
Applicants on the Housing Register	22 (16)	150 (150)	21 (24)
Public Housing Tenancies	38 (38)	342 (342)	S (S)
Number of Emergency Housing Special Needs Grants	7 (21)	42 (62)	S (6)
Applicants on the Transfer Register	S (0)	7 (6)	0 (0)
Transitional Housing Places	6 (6)	42 (38)	0 (0)

Data Source: Public Housing in Southern Region, Ministry of Housing and Urban Development June 2021

Data in brackets denotes the previous quarter (March 21)

S denotes a small sample size which has been suppressed for privacy reasons

The use of motel type accommodation for emergency housing is placing pressure on event accommodation and is progressively reducing the total stock of commercial accommodation available.

² Which provides the number of applicants assessed as eligible for social housing who are ready to be matched to a suitable property.

Forecast Future Demand for Housing Stock

Infometrics provided a population forecast for the Southland region through until 2025. They state that “Southland’s population was 102,400 in 2020, and by 2025 is forecast to reach 109,600 under the medium scenario, 111,300 under the high scenario, and 108,800 under the low scenario” (Infometrics, August 2021 p. 7). Adopting this forecast, and the regional average of 2.52 people per dwelling (at the 2013 census), further analysis can be undertaken to understand likely demand for housing stock over the next 5 years. Below, we consider each of the following scenarios and assume a build rate of 237 houses per year³. Depending on the applied growth scenario outlined by Infometrics (2021), this forecasts a shortage of 2,423 to 3,415 houses in the region.

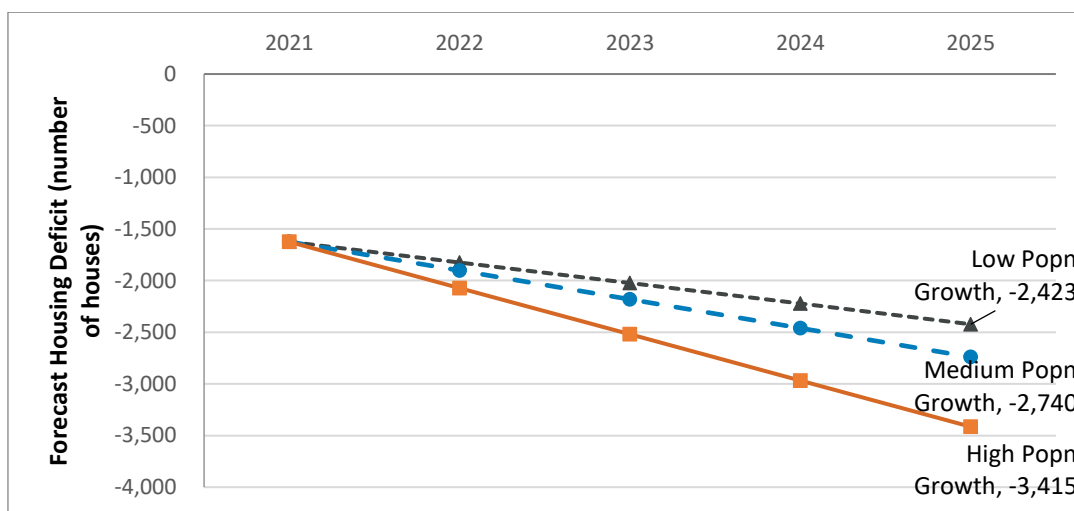


Figure 9: Forecast deficit in housing stock, with different population scenarios (low, mid, high), and net increase of 237 houses per year (current levels)

Two further scenarios have been calculated, assuming an increased rate of building in Southland. Figure 10 shows what the forecast deficit would look like if the rate of building was to double over the next 5 years (i.e., 474 houses per year). Even in this scenario, assuming a ‘mid’ population growth, there is still a deficit of 1,792 houses in Southland.

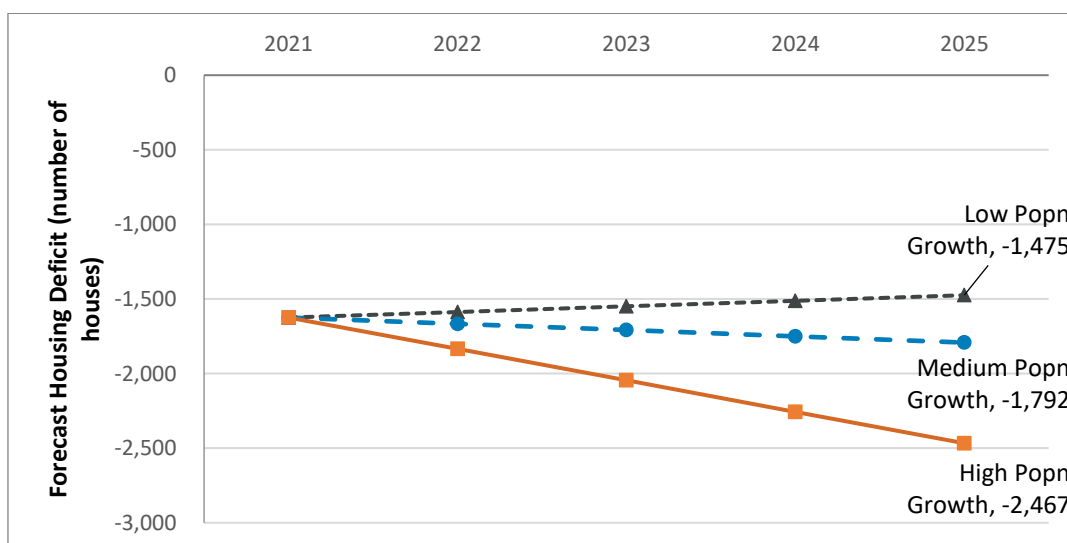


Figure 10: Forecast deficit in housing stock, with different population scenarios (low, mid, high), and net increase of 474 houses per year (double current rates of building)

³ 237 per year is the net rate of growth in the number of dwellings available in Southland, as reported in census data

Figure 11 shows by quadrupling the number of houses constructed in the region (to 948 per year), we could succeed in reducing this deficit in houses to effectively zero, with a slight over supply in 2025.

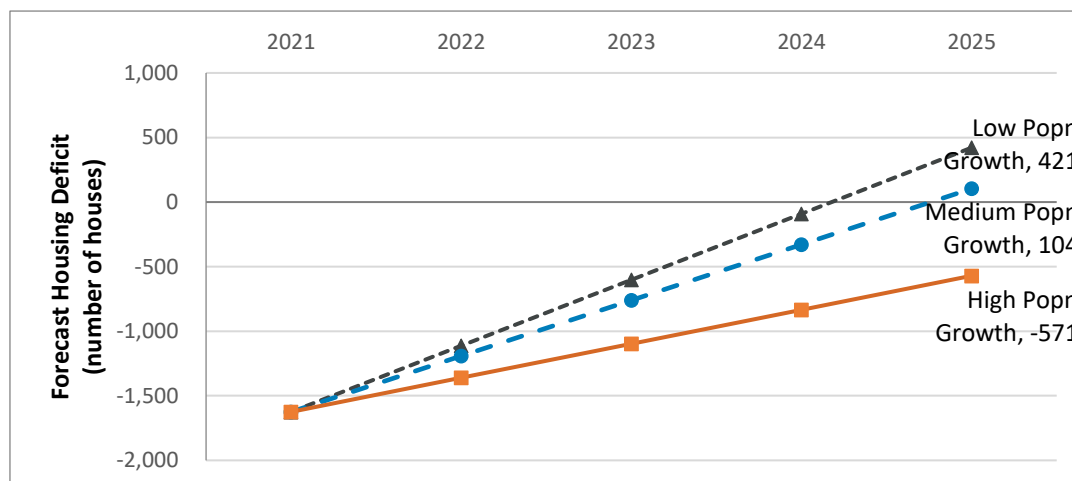


Figure 11: Forecast deficit in housing stock, with different population scenarios (low, mid, high), and net increase of 948 houses per year (quadruple current rates of building)

Given this significant undersupply in property, and continual population growth pressures, priorities need to be placed on supporting the development of residential subdivision, infilling of existing residentially zoned land. We further recommend that careful consideration should be given to how housing for the elderly is developed, given Southland's aging population.

Summary

Based on data reviewed by Great South, we find the following:

- A key driver for Southland's housing market is the growth in population. Our initial estimate is there is an existing housing shortage of around 1,659 houses.
- This has put pressure on the existing undersupply of property in Southland and subsequently has driven significant increases in both property prices and rent. This increase is around 18% for the region in property value compared to the same time last year, while rents have on average increased 50% since 2018.
- Even if all residential properties consented for construction are constructed, this will not address the current demand for property.
- The downturn in tourism in some areas (such as Fiordland) has provided some relief from the rental property market perspective by freeing up Airbnb properties for longer term rental. However, this is not consistent across Southland.
- Access to residential property to buy and rent will be a key factor restricting future industry development in the region.
- We have seen a significant increase of 254% in the need for emergency housing in Southland since the previous report. This has not been matched by supply, which has remained flat since then. This requires an urgent review.
- A significant shortfall in housing is forecast assuming continued population growth and current rates of construction. Without action, this shortage could increase to **3,415 houses** by the year 2025.
- This will significantly hamper the ability to achieve population growth, meet recruitment and skills attraction, and effectively service existing and new industry in the region.
- This report has shown that an increased shortage of housing is likely to become a driver of increased property and rental prices. This disproportionately affects the lower socioeconomic groups and will likely further increase demand for emergency housing.
- Despite the fact that Southland Warm Homes Trust has insulated more than 8,000 homes in the last 15 years, newcomers to the region are constantly concerned about inadequacy of Southland's home insulation and heating. Accordingly, there is a need to ensure that new homes are well insulated and that other factors such orientation to the sun is factored into subdivision and house planning.

- To meet the current projected housing demand, priorities need to be placed on the erection of residential subdivision and infilling of existing residential zones in Southland communities.
- It is important to note that, in spite of Southland's aging population, there has been very little if any investment in building retirement village units or town houses in the last 2 years.
- An increase in Gore housing needs has become more acute since the 2018 housing assessment.
- Housing demand on Rakiura Stewart Island has come under increasing pressure as visitor numbers continued to grow. There is also a significant need for housing for the elderly on the Island.
- The use of motel type accommodation for emergency housing is placing pressure on event accommodation and is progressively reducing the total stock of commercial accommodation available.

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