2023 Hamilton Annual Economic Report

A snapshot of Hamilton's people, economy and development and a look at the year ahead

Published July 2024

Hamilton City Council
Te kaunihera o Kirikiriroa

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SUMMARY

2023 key growth and economic indicators

CITY AREA
11,093 ha

POPULATION
185,300

BUSINESSES IN THE CITY
17,403

GDP
$14 BILLION

FILLED JOBS IN HAMILTON
107,032

UNEMPLOYMENT RATE
5.4%

NON-RESIDENTIAL DEVELOPMENT
78,100m2

HOUSES UNDER CONSTRUCTION
803

NEW HOMES COMPLETED IN 2023
1257

MEDIAN HOUSE PRICE
$815,000
December 2023 quarter

Sources: Hamilton City Council, Infometrics and Marketview

Executive summary

In 2022, we predicted Hamilton's economy would slow substantially in 2023. It has in many respects, but there have been some surprising upsides in job growth and some economic growth for our city, despite New Zealand entering a recession. But on the back of a national recession and softer global demand, the outlook for Hamilton in 2024 remains challenging for businesses and households.

2023 highlights for Hamilton:

- Hamilton became New Zealand's fastest growing city, increasing by 6100 people (3.4%).
- Hamilton's job market continued to grow, adding an additional 2900 filled jobs.
- There was a net increase of 372 businesses in Hamilton.
- $271 million of industrial and commercial development was consented.
- The median house sales price increased $45,000 to $815,000 by the end of 2023.
- Several big non-residential developments were completed in 2023, including ACC in the central city and the 40,000m2 Kmart distribution centre in Ruakura.

Challenges:

- Spending increased 4% but once adjusted for inflation, it was -0.5%.
- Residential consenting fell 14% to 1213 dwellings granted.
- The number of new homes completed fell 13% to 1231.
- Subdivision consenting fell 58% as demand dried up further in greenfield (our new development areas) and plummeted in infill (existing suburbs).
- An increasing number of residential construction projects have not started, suggesting that many projects have paused. By the end of 2023, consents had been granted for 744 dwellings that had not started construction, nearly double the figure seen in mid-2022.

Significant national and global influences:

- The Official Cash Rate (OCR) increased to 5.5% in May 2023 and remained there for the remainder of 2023.
- New Zealand entered a recession in the latter half of 2023, though Hamilton's Gross Domestic Product (GDP) growth remained slightly positive.
- New Zealand households experienced a cost-of-living crisis with high inflation and increased interest rate costs.
- Extreme weather events had a devastating impact on much of the North Island, causing loss of life, isolating communities and damaging food crops.
- The 2023 general election saw an increase in business and consumer confidence towards the end of the year, although this did not result in a considerable uptick in spending.
- Export demand softened, particularly for the dairy and meat industry.

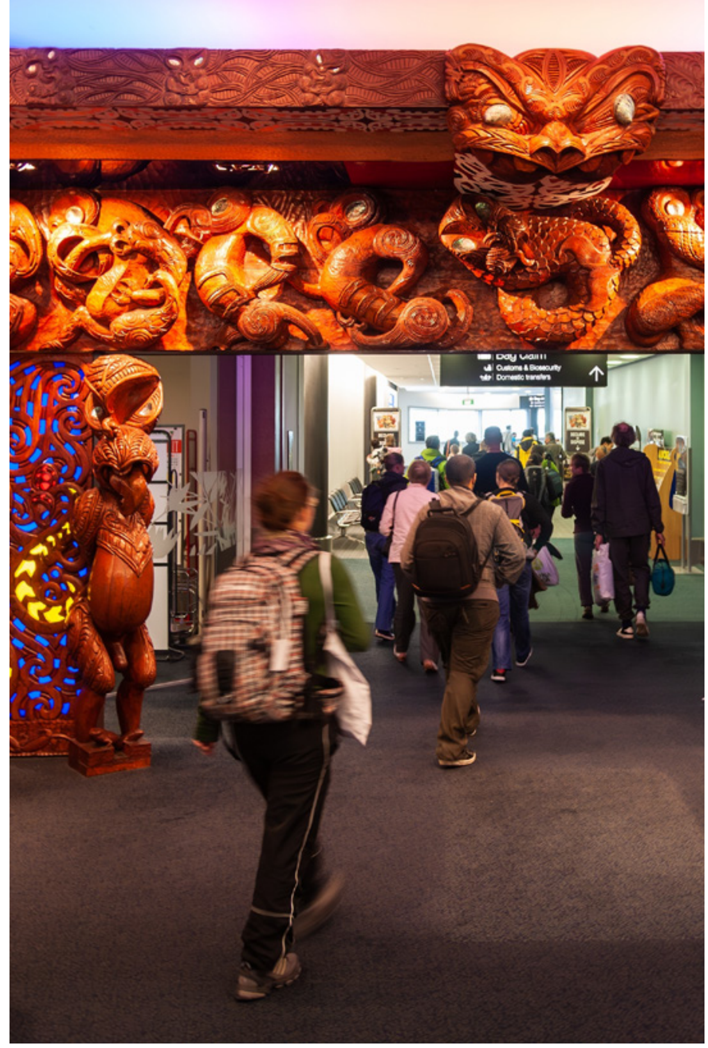
The outlook for Hamilton's economy in 2024 is for little if any economic growth and continued strain on household budgets. We expect:

- residential consenting to fall further as low sale prices and increased construction costs make many projects infeasible
- interest rates to remain high resulting in little growth in house prices – the biggest driver of residential construction activity
- lower spending, leading to the failure of some businesses and higher unemployment
- population growth to be lower than 2023 but still strong, and for this to increase pressure on the rental market
- businesses and developers to remain very cautious about making big investments in people, premises and machinery
- inflation to remain above 3% for most of the year
- international demand for export goods to be soft, particularly from China.

INTRODUCTION

Global and domestic economic context

The headlines were numerous in 2023 – record levels of net migration, an economic downturn coupled with a cost-of-living crisis, devastating weather events and further global destabilisation.

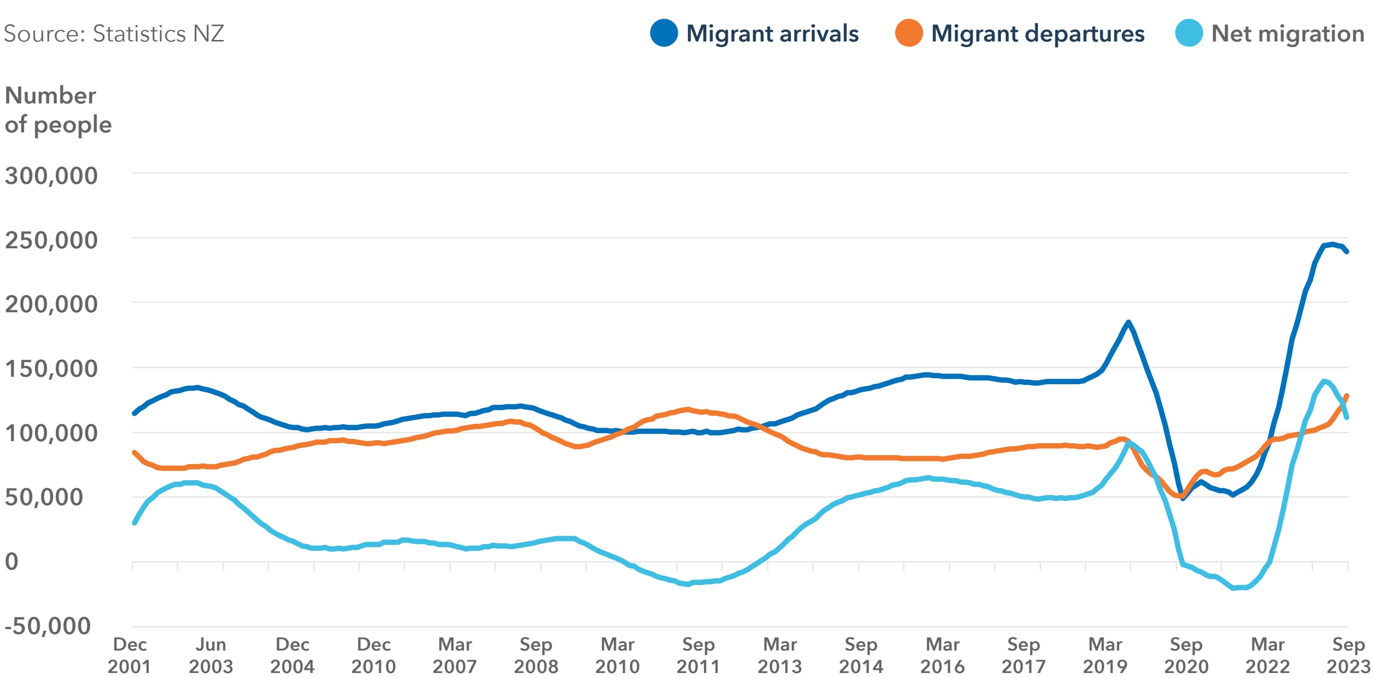


New Zealand's international migration boom

2023 was the first year that New Zealand's border had been fully open since 2019. International net migration hit a record high of 139,000 people in October 2023. Both the inflow of new migrants and the outflow of New Zealanders was high in 2023.

International migration, 12-month rolling total

Source: Statistics NZ



High migration helped to pare back the growth in hourly earnings to 6.9% by the end of 2023. Wages in the public sector increased 7.4%, while private sector wages increased 6.6%, down from 8.2% in March 2023. Public sector growth was pushed higher by pay settlements in education (up 14%) and healthcare sectors (up 10%) that came into effect towards the end of 2023.

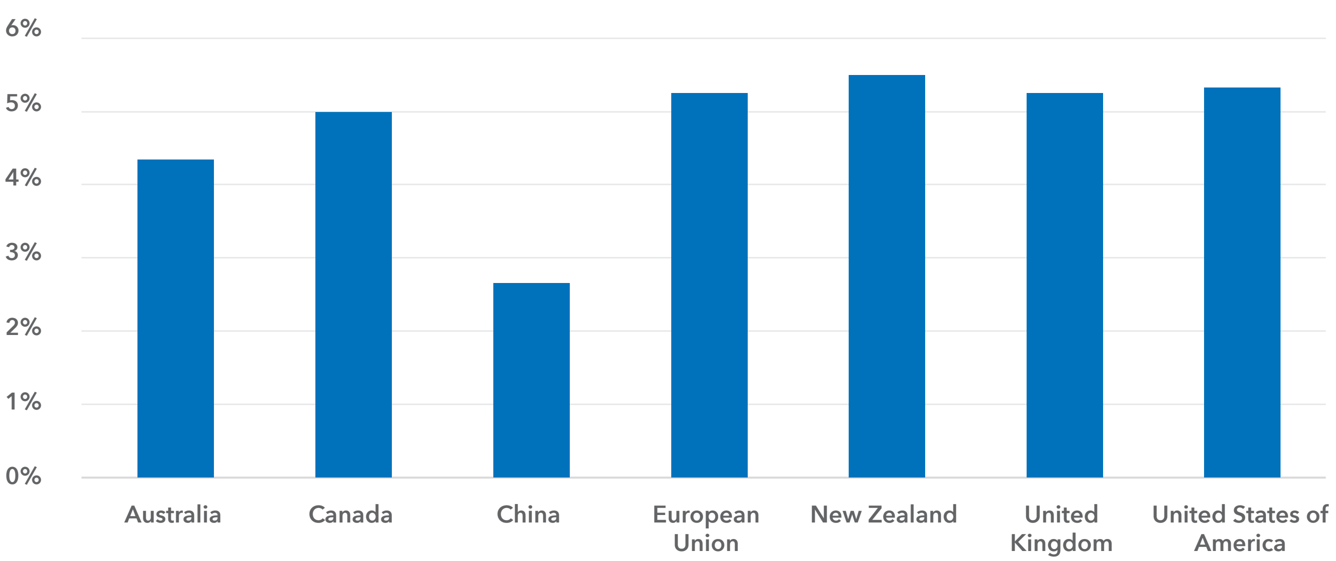
An economic slowdown

In New Zealand, annual economic growth slowed to just 0.7% in 2023, down from 2.6% in 2022 and an average of around 3% over the past 10 years. New Zealand officially entered a recession in the second half of the year with two quarters of negative growth, although we only saw growth in the June quarter (+0.5%) in 2023. Population growth of 106,000 people and 1.5 million extra tourists in the country was not enough to offset the fall in demand from New Zealanders and soft international demand for New Zealand products.

The global growth picture was similar. The December 2023 quarter saw little to no growth across most of New Zealand's trade partners including the European Union, Australia, Canada and the United Kingdom. Like New Zealand, most advanced economies continued to fight the inflation battle in 2023, with the central banks of most of our trading partners landing on their current cash rates in the latter half of the year. Most central banks were cautious about easing monetary policy as the risk of inflation remained.

International official cash rates

Source: International Monetary Fund



With softer global demand, New Zealand's exports fell 4.7% in 2023 with nearly half of that fall coming from a fall in Chinese demand. Dairy and meat exports were each down over $1 billion in 2023.

Extreme weather events devastate the North Island and further afield

Unfortunately, economic hardship was not the only challenge presented in 2023. Less than one month into 2023, Auckland and Northland experienced devastating flooding. An entire summer's worth of rain was recorded in a single day, causing an estimated $4 billion of damage, and the death of four people.

A week later the country was hit by Cyclone Gabrielle which wreaked havoc across the North Island, resulting in the tragic loss of 11 lives and causing another $14 billion of damage. The first ever National State of Emergency was declared for a weather event. Hamilton was lucky to escape any major destruction from these storms.

The weather continued to cause havoc throughout 2023 with heavy rain in Tairawhiti in June, damaging high winds in Wellington in September and in Canterbury in October. Meanwhile parts of Otago experienced drought conditions.

Globally, 2023 saw devasting natural disasters with wildfires in Chile, Hawaii and Canada, flooding from California to Ecuador to Libya; heatwaves in Australia, Asia, Europe and the United States of America; snowstorms in Los Angeles; sandstorms in Beijing; and earthquakes in Turkey and Syria. Global conflict also increased, with war in Gaza, increased tension in the Middle East and ongoing conflicts in Ukraine, Pakistan, Yemen and Africa. The UN Refugee Agency declared 43 humanitarian emergencies in 2023 and estimate 114 million people were displaced.

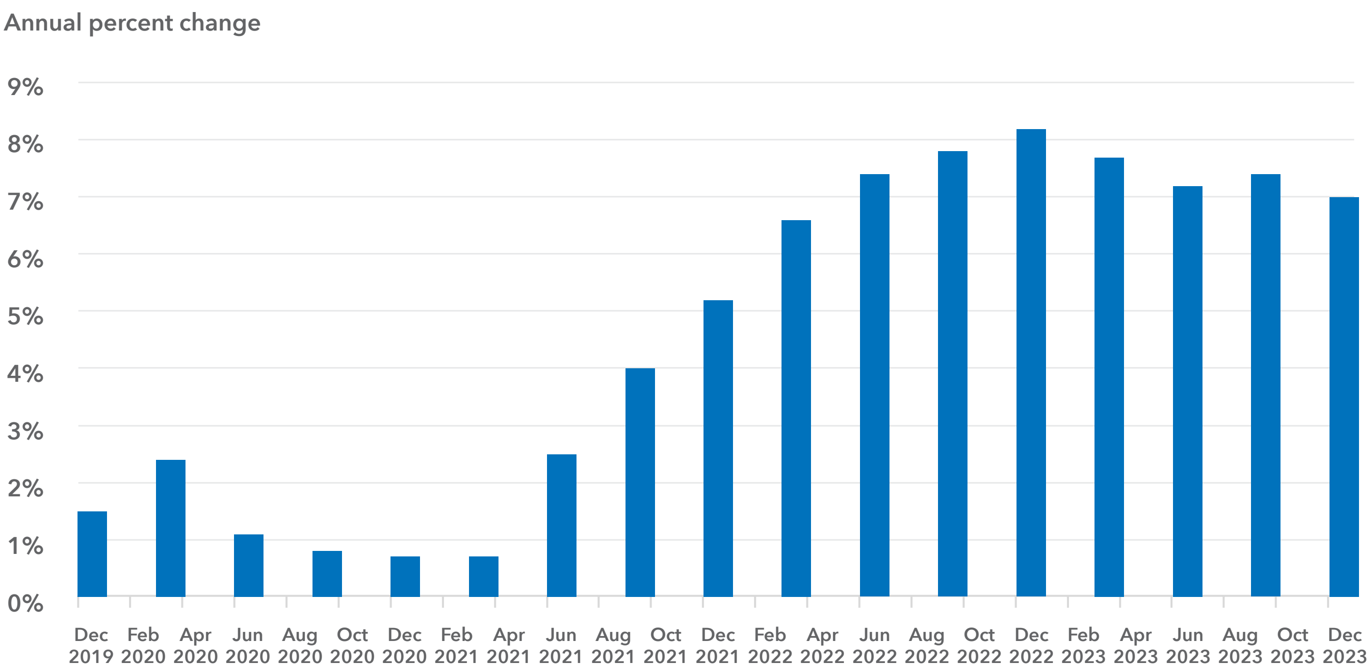
New Zealanders faced a cost-of-living crisis

A crisis faced by New Zealand households in 2023 was the cost-of-living, fuelled by high inflation and increasing mortgage interest rates. Statistics New Zealand's cost-of-living index, which includes inflation and ongoing costs like interest rates, showed that while inflation moved from a peak of 7.3% in June 2022 to 4.7% in December 2023, the index peaked in December 2022 at 8.2% and was still sitting at 7% in December 2023. Cost-of-living increases were highest for high spending households (7.3%) whose interest payments increased 31% over the year while insurance increased 14%. Households were under sustained financial pressure throughout 2023.

The weather events outlined earlier added to cost-of-living pressures. Fruit crops in Hawkes Bay and vegetable crops in Pukekohe and Northland were wiped out by these events, increasing fruit and vegetable prices by 23% year-on-year in February 2023 and adding to rampant food inflation, which was over 12% per annum. They also contributed to increased insurance costs.

Cost of living index

Source: Statistics New Zealand



The 2023 general election in New Zealand saw all political parties making promises to address the cost-of-living crisis. The election resulted in the formation of a coalition between the National, Act and New Zealand First parties. Business confidence was at its highest since the pandemic and consumer confidence also improved.

Our economy

OUR ECONOMY

Hamilton's importance to Waikato

LAND AREA
0.5%

JOBS
44%

GDP
42%

POPULATION
35%

Source: Infometrics and Hamilton City Council

Hamilton is less than 1% of the Waikato by land area but it plays a critical role in the region. We estimate that the city provides jobs for over 16,000 people living outside the city boundary. It is also home to 27% of Waikato businesses, including nearly half of all healthcare businesses. 44% of the region’s spending happens in Hamilton.

In 2023 we saw the first signs of an economic slowdown with Hamilton's annual GDP growth falling to 0.6% by December and spending falling below inflation. In the latter half of 2023, New Zealand entered a recession with both the June and December quarters seeing a fall in GDP. On the positive side, job growth continued to exceed expectations and outpace national job growth.

However, businesses are facing ongoing pressures including rising product costs and demands for higher wages to offset high inflation. In 2023, earnings increased 7.6% while spending only increased by 4% - below inflation of 4.7%.

Hamilton’s annual GDP reached $13.8 billion in December 2023. While our GDP has continued to grow, the rate of growth has fallen from 3.4% in 2022 to 0.6% for 2023. Similarly, New Zealand’s GDP went from a growth rate of 2.6% in 2022 to 0.7% in 2023.

The fall in GDP is being driven by higher interest rates restricting the ability of people to borrow and spend. As demand falls, less is produced to meet demand. This is a deliberate strategy by the Reserve Bank of New Zealand (RBNZ) in an effort to bring down inflation.

OUR ECONOMY

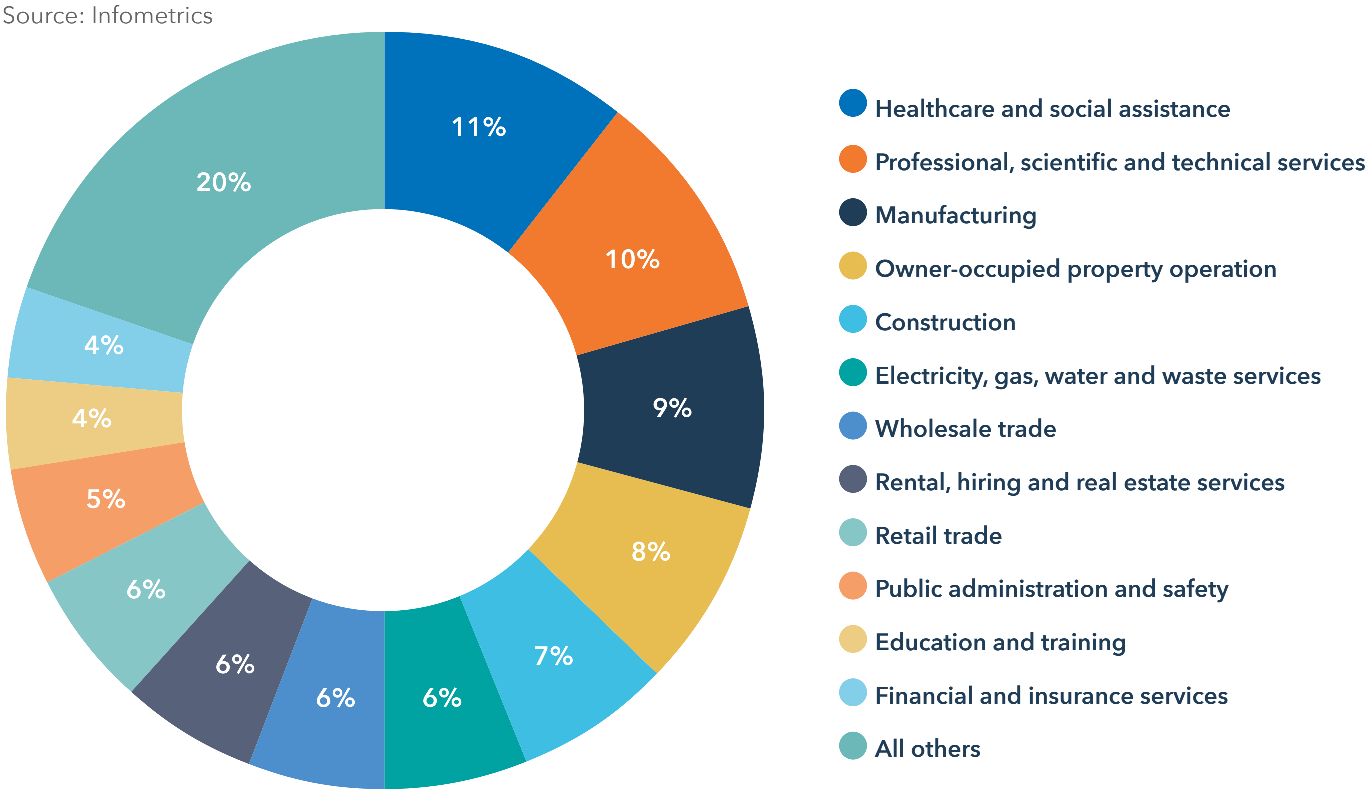
Industry

In 2023, healthcare continued to be Hamilton's largest contributor to GDP worth $1.5 billion, up 8% from 2022. This increase saw healthcare make up 11% of Hamilton's GDP pie. Professional and scientific services contributed $1.3 billion, increasing 6% from 2022, while manufacturing, our third biggest sector, contributed $1.2 billion, an increase of 2% from 2022.

While most parts of our economy continued to grow in 2023, seven sectors saw their contribution to GDP fall. Public administration and safety saw the largest fall (down $26 million, -4%), followed by electricity, gas and water services which fell $17 million (-2%). The fall in production for public administration was closely aligned with the fall in employment in the sector. However, the electricity, gas and water services sector, saw an increase in employment, but a fall in GDP. The fall in GDP reflects that once inflation is taken into account, the price of power actually decreased 2.8% in 2023.

Hamilton's key sectors' contribution to the economy

Source: Infometrics



Businesses

Hamilton continued to attract new businesses in 2023 with a net increase of 372 new businesses (2.2% more) opening their doors, bringing our total number of businesses to 17,403. This follows a net increase of 849 new businesses in 2022. Over the past 10 years, the number of businesses in Hamilton has increased nearly 28% compared to 21% in Waikato and nationwide.

Hamilton's business growth has outstripped the national average for more than 20 years. Hamilton's strategic location and growing population is a big draw for new businesses.

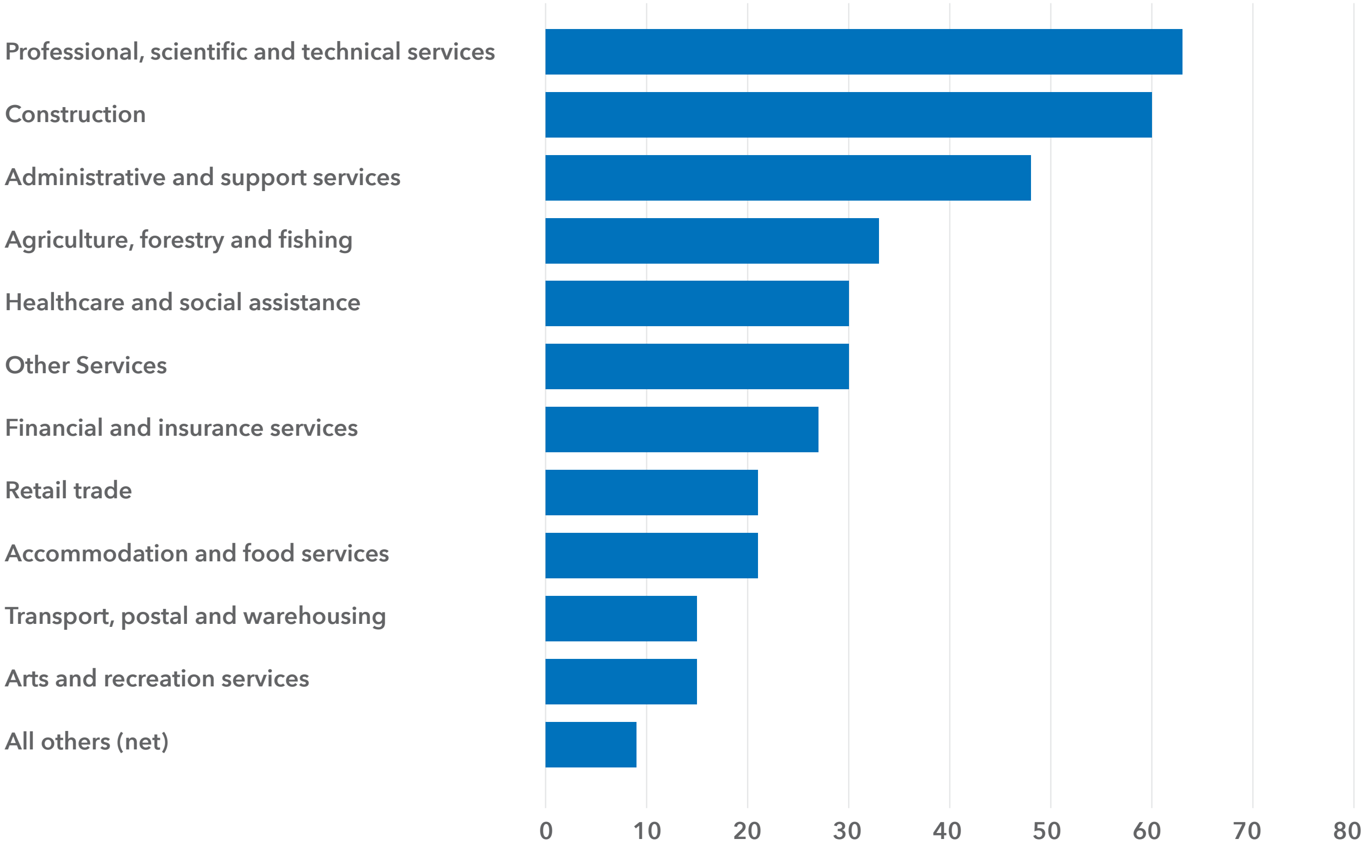
The largest industry growth came in professional and scientific services, accounting for 17% of the increase. The construction sector was close behind and accounted for 16% of growth. Significant growth was also seen in administration and support services, healthcare, and in the agriculture, forestry and fishing sector, which covers everything from farming to horticulture to industry support services.

In Hamilton, nearly 63% of businesses are sole operators with no employees while another 20% have fewer than five employees. There are 203 businesses in the city that employ 50-100 staff, and another 177 that employ more than 100 staff.

Tougher economic conditions will likely increase the risk of some businesses going into liquidation over the coming year. According to the March 2024 Centrix report, credit defaults and liquidations are up, with retail trade and construction industries hardest hit. While a negative experience for those involved, it is a natural part of the business cycle, and presents opportunity for new businesses and innovation to arise. Falls in the number of businesses tends to be seen about two years after an economic downturn, with businesses looking for ways to adapt before closing.

Hamilton's top areas of business growth in 2023

Source: Infometrics



OUR ECONOMY

Employment and jobs

In 2023, Hamilton had over 107,000 filled jobs, an increase of 2.8% (2900 jobs) from 2022. This number excludes any unfilled jobs. Job growth in Hamilton has outpaced the rest of the country since 2017.

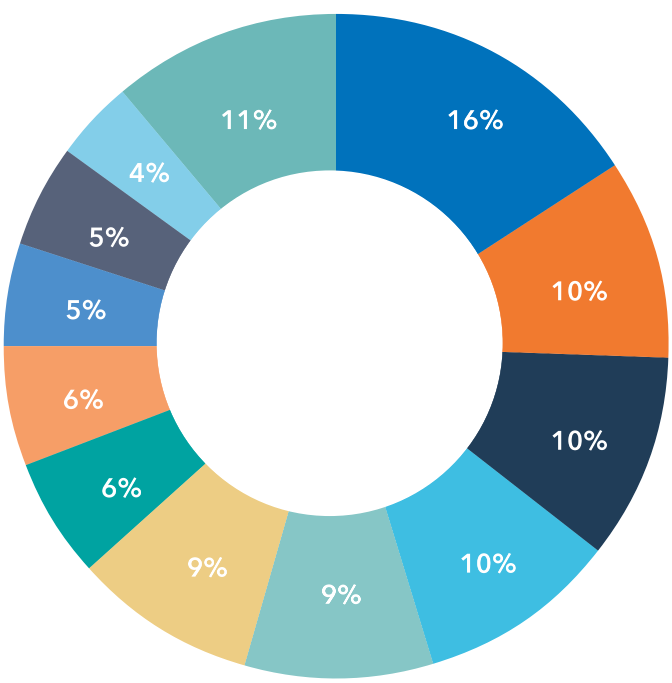
Job growth was widespread across most industries. The largest growth was seen in healthcare (+730 jobs), manufacturing (+465 jobs) and professional and scientific services (+421 jobs). Two sectors experienced a decline in filled jobs – public administration jobs fell by 192 across both local and central government roles; and transport, postal and warehousing jobs fell by 105.

107,032 jobs in 2023

UP **3%**

Jobs in Hamilton by Industry, 2023

Source: Infometrics

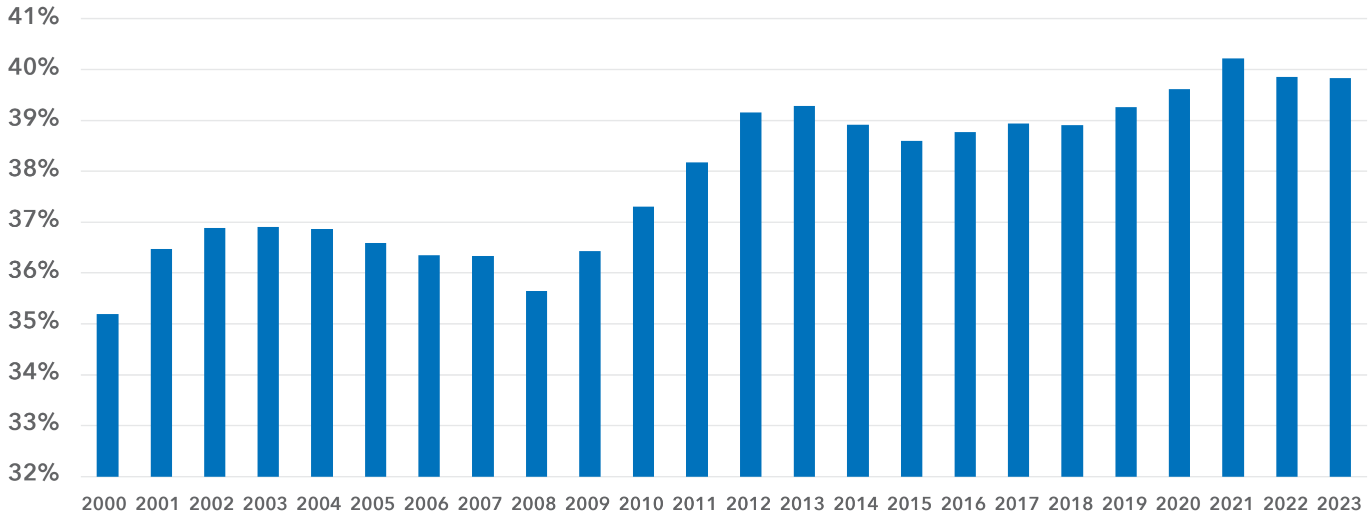


- Healthcare and social assistance
- Professional, scientific and technical services
- Manufacturing
- Construction
- Retail trade
- Education and training
- Accommodation and food services
- Public administration and safety
- Wholesale trade
- Administration and support services
- Other services
- All other industries

Following the 2008 Global Financial Crisis (GFC), Hamilton saw a significant increase in the proportion of filled jobs that are knowledge-intensive – essentially jobs where the use and generation of knowledge creates economic activity (as opposed to manual labour). Knowledge-intensive industries seem to be more sensitive to global economic events, with the exception of the Covid-19 pandemic. Previously we have seen these types of jobs falling during the GFC and the 2013 European debt crisis. In 2023, 40% of Hamilton's workforce was in knowledge-intensive roles.

The growth of knowledge-intensive industries in Hamilton as a proportion of total filled jobs

Source: Infometrics

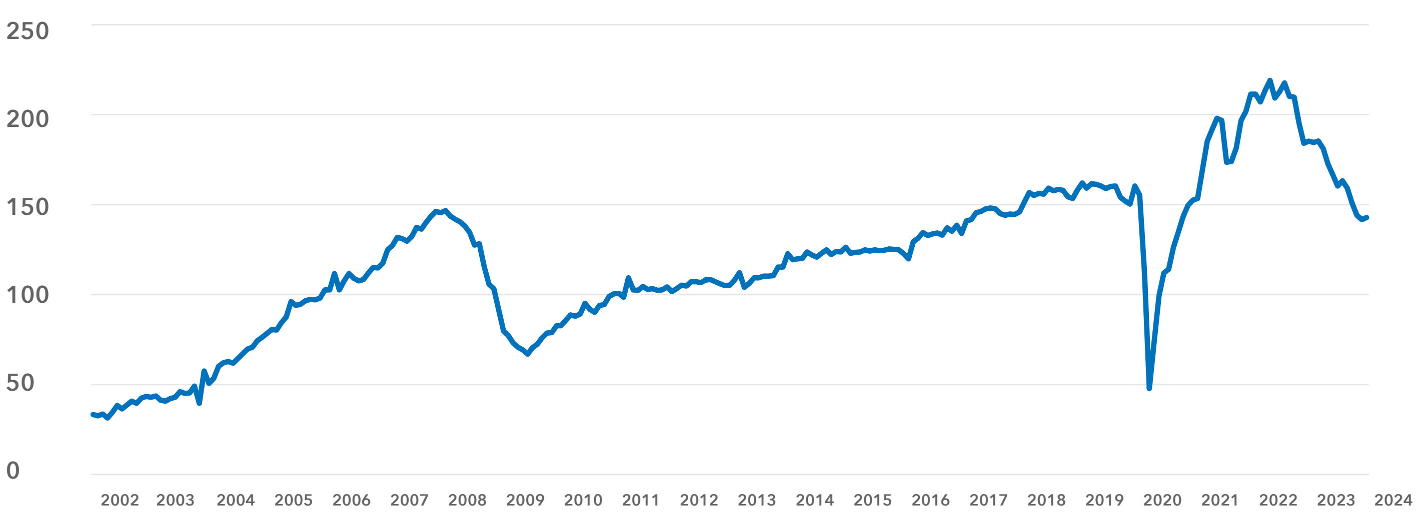


Job advertisements

In December 2023, Waikato job advertising dropped 24% year-on-year, compared to -24% in Auckland, -23% in Bay of Plenty and -32% in Wellington. While these are significant falls, job ads in 2022 were still at record high levels. The Seek job ad index for New Zealand shows that by the end of 2023 job ads are 6% below pre-Covid levels.

Seek NZ job advertisements index

Source: Seek NZ



Seek noted that across New Zealand, the top industries for job ads were trades and services, manufacturing and logistics, healthcare and information and communication technology. Ads for construction roles also saw an increase compared to November 2023.

Applications per job were at a record high. Seek job data shows the number of applications per job advertisement more than doubled in 2023 as immigration skyrocketed and the number of jobs advertised dropped 25% across the country.

Current Seek job listings show a total of 880 jobs advertised in Hamilton across a wide range of sectors. As at April 2024, there were 132 jobs advertised in trades and services, particularly in automotive services and 93 roles in manufacturing and logistics. The Education Gazette shows just over 80 listings for jobs in schools and early learning centres in the Hamilton metro area.

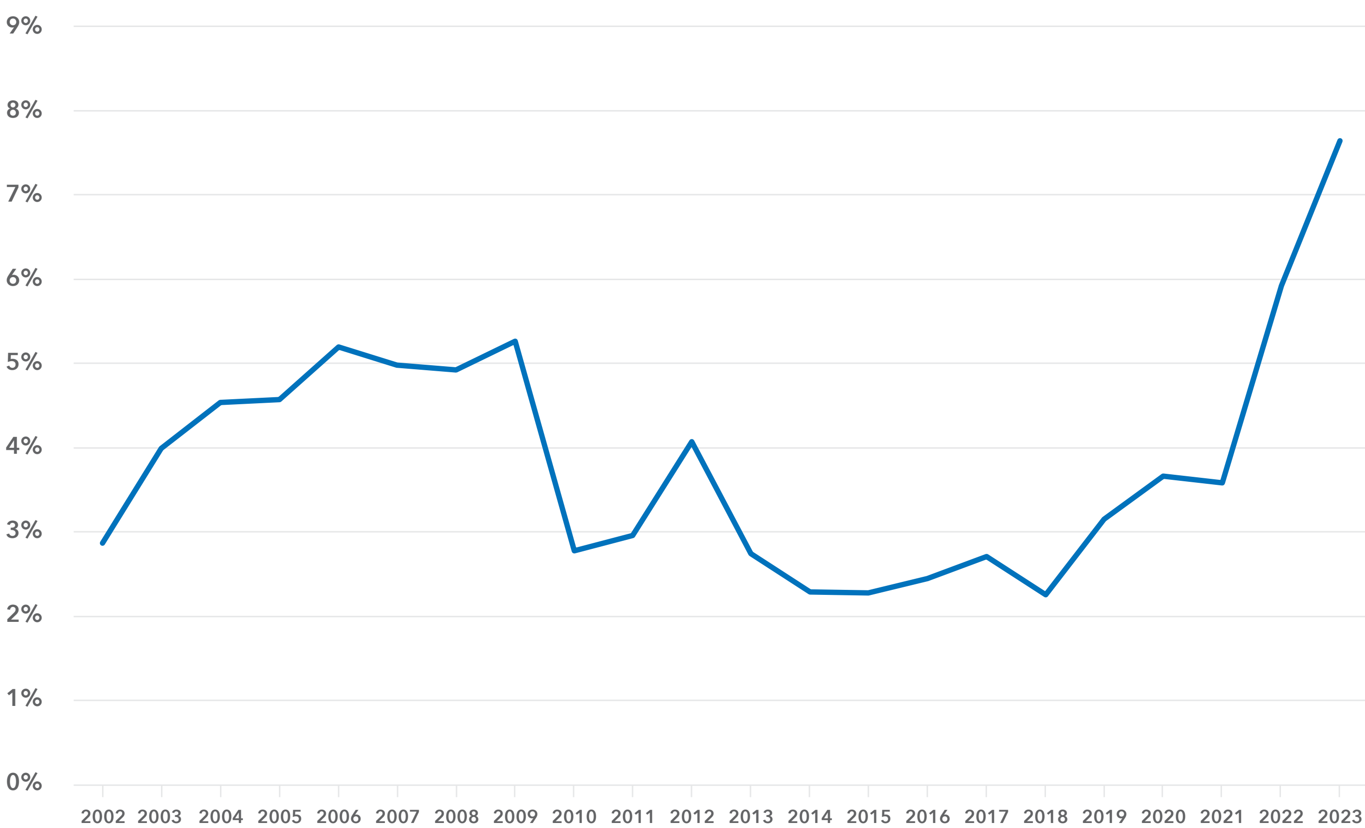
Despite seeing an increase of 730 jobs in Hamilton in 2023, healthcare remains one of the most challenging sectors to fill roles. At the time of writing, Waikato District Health Board had 99 Hamilton-based roles advertised on its website. According to Seek analysis, the healthcare sector in Hamilton makes up seven of the top 10 "toughest jobs to fill". This is not the same in other regions. Other challenging areas in Hamilton are corporate and commercial law roles and real estate valuation.

Earnings

Hamilton's average earnings per filled job tracks in line with the national median wage. In 2023, jobs in Hamilton had average earnings of $74,700, up from $69,400 in 2022. This is an increase of 7.6%, the highest in decades. It follows a 5.9% earnings increase in 2022 and reflects a strong demand for labour, and high inflation encouraging workers to seek more money.

Average annual wage increases in Hamilton

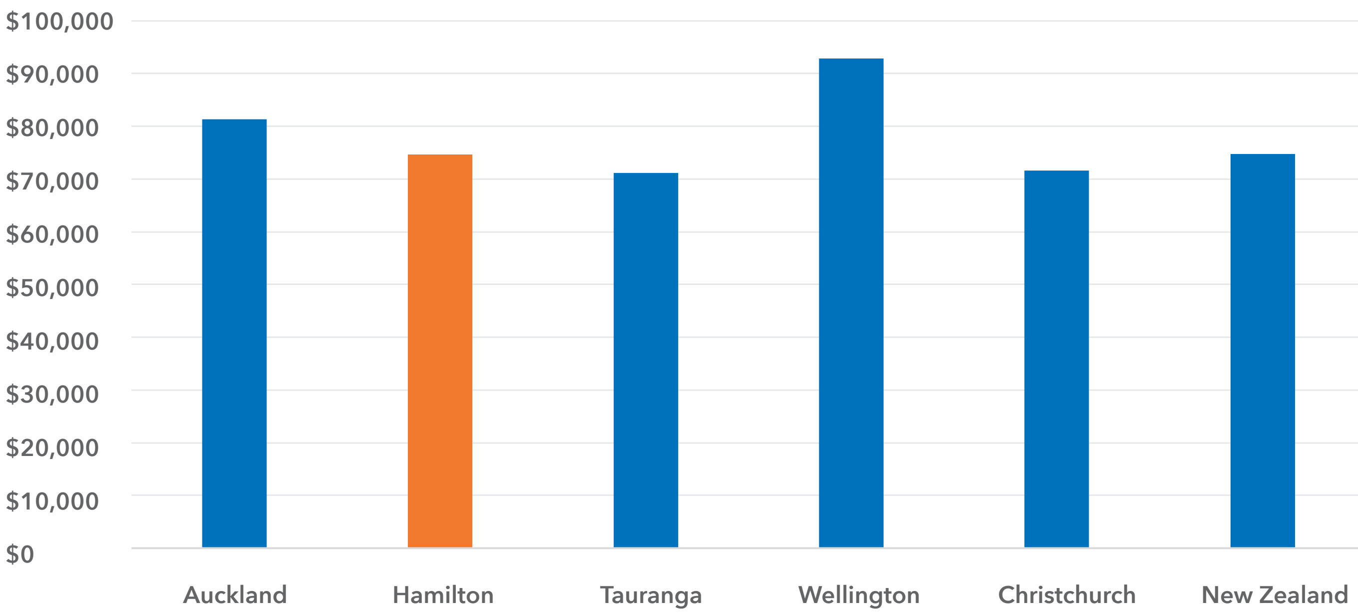
Source: Infometrics



On average, earnings in Hamilton per job are below that of Auckland and Wellington, and above that of Tauranga, Christchurch, Waipaa and Waikato. One factor driving up wages in areas like Wellington and Auckland is a higher cost of living in. Another is the makeup of jobs, with Wellington having nearly 60% of its jobs in high-value services, which would include many public sector and consultancy services, compared to 39% in Hamilton and 32% nationally.

Average earnings per job in 2023

Source: Infometrics



OUR ECONOMY

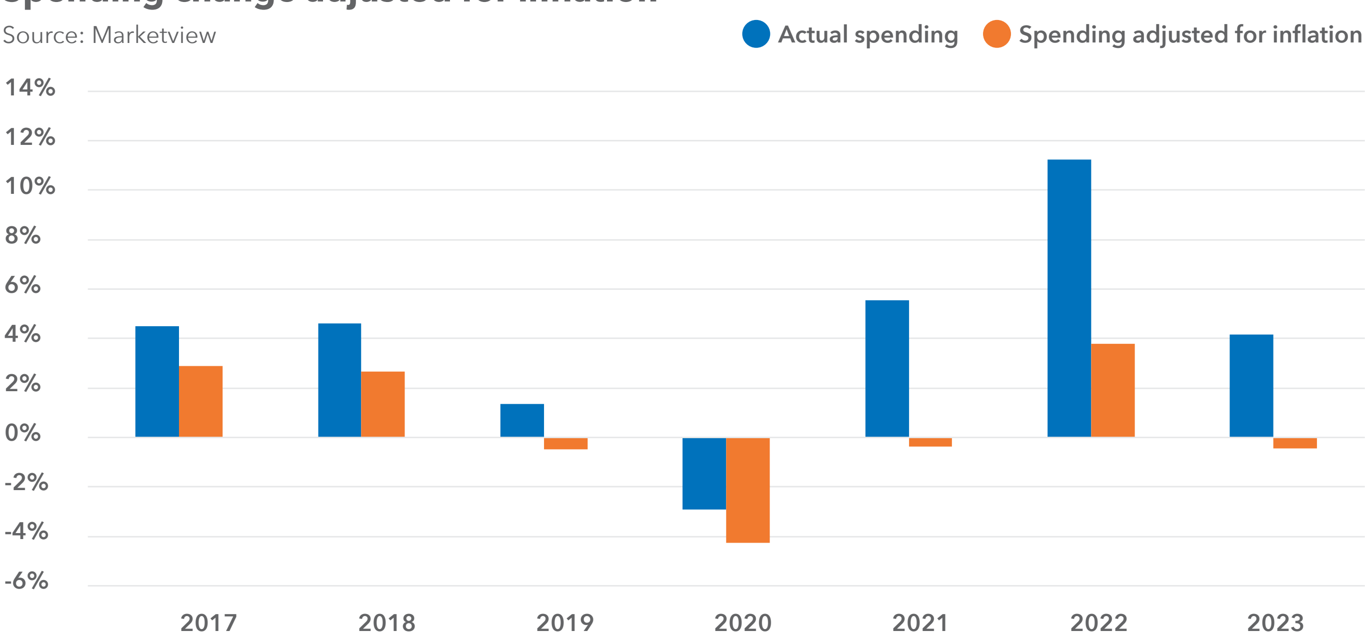
Card spending

In 2023 we came down from the sugar high of spending that occurred due to the Covid-19 pandemic. It was inevitable, and in many ways, it was planned as RBNZ fought inflation by increasing interest rates. Inflation was at 6.7% at the start of the year, falling to 4.7% by the December 2023 quarter.

In 2023, we saw some of the highest levels of food price inflation since the 1980s. At the peak, food prices were up more than 12% from 2022. This led to an 11% increase in spending on groceries and liquor. By the end of 2023, food price inflation had fallen back to just under 5% but remained well above the long-term average of 2.3%. When adjusted for inflation, spending declined 0.5% in 2023.

Spending change adjusted for inflation

Source: Marketview

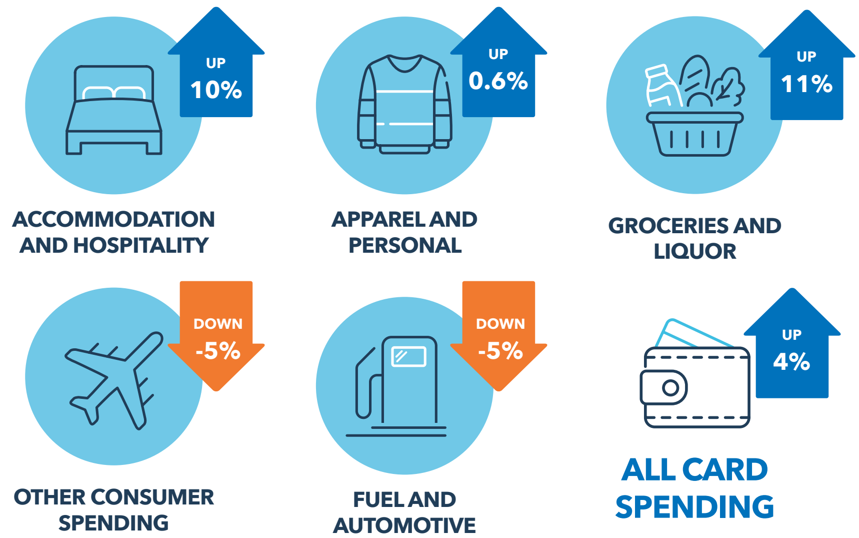


Spending fell in two areas in 2023 – fuel and automotive, and other consumer spending which includes things like international travel spending. A 5% fall in fuel and automotive was driven by falling fuel prices. However, to put this in perspective, fuel prices remain 20% (petrol) to 36% (diesel) above pre-pandemic levels and spending remains 22% higher.

While retail trade spending managed to stay positive, an increase of 0.6% is well below inflation and particularly low considering Hamilton's population grew by 3.4% in 2023.

Changes in card spending in 2023

Source: Marketview



Hamilton's central city saw the largest increase in spending in 2023, increasing 11% from 2022. Spending patterns suggest a move back towards the central city from the sub-regional centres like The Base and Chartwell, reflecting the increase in people in the central city compared to 2022.

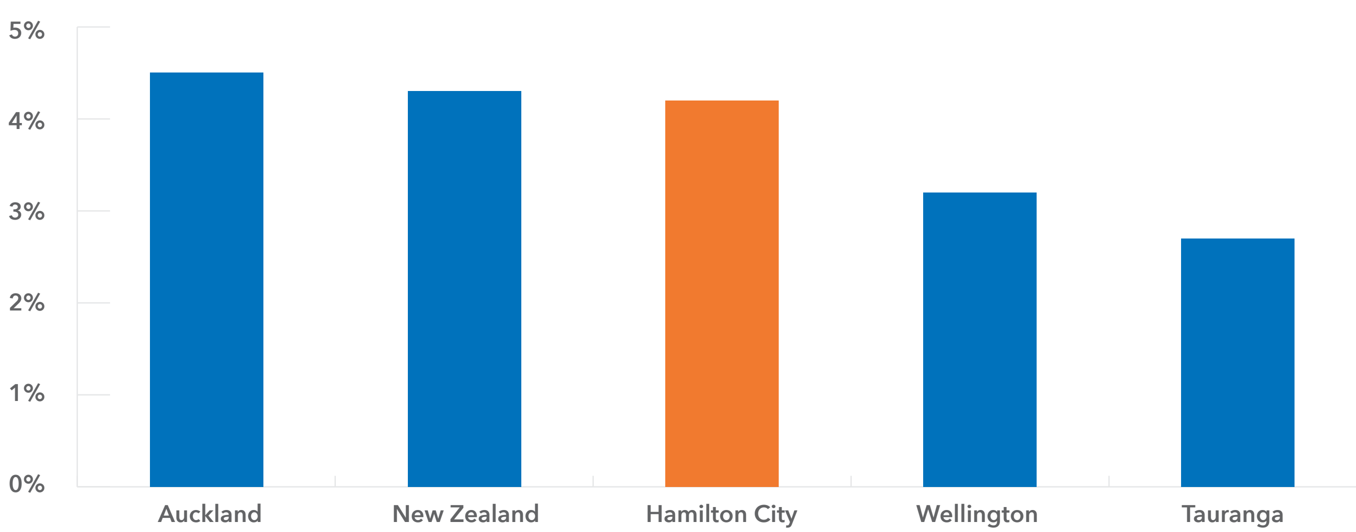
The number of transactions in Hamilton increased 2.8% in 2023 with nearly 61 million card transactions processed. The average amount spent in each transaction increased 1.3% to $49.39 compared to $48.76 in 2022.

The only area to see a reduction in average spend per transaction was groceries and liquor, dropping 11% from $24.34 in 2022 to $21.68 in 2023. In 2022, the average food and liquor transaction increased a massive 27%.

Accommodation and hospitality saw a 9% increase in average spend and a 10% increase in total spending. With the lockdowns and closed borders of 2020 to mid-2022 a thing of the past, and more events than ever coming to our city, this sector has seen back-to-back improvements in spending. However, the number of card transactions for this sector remains below pre-pandemic levels.

Spending in major cities, 2023 compared to 2022

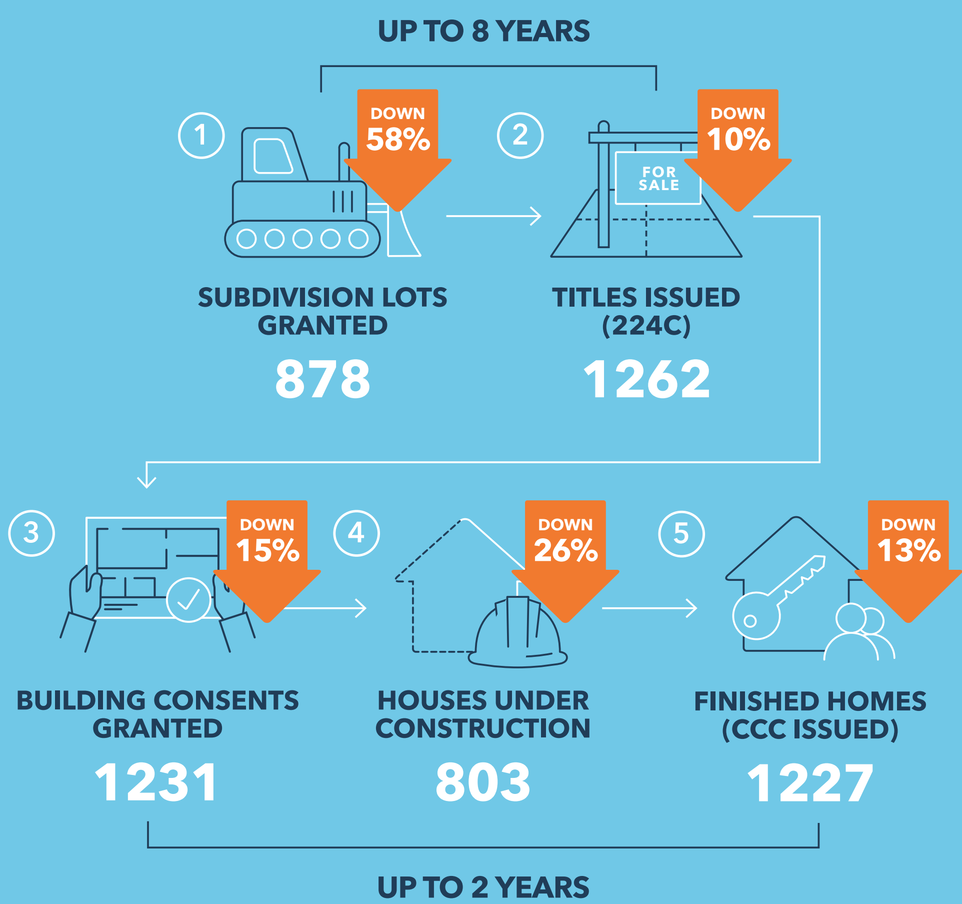
Source: Infometrics



Housing

HOUSING

The consenting cycle



Source: Hamilton City Council

The development lifecycle generally begins with a subdivision consent being lodged and then granted. The subdivision consent allows a developer to begin earthworks and develop the land for subdividing. For big greenfield developments, this could include laying water and wastewater pipes and building roads within the subdivision. Once the work is completed, the developer can apply for 224c Certificates to be issued which then allows them to get titles for the individual sections from Land Information New Zealand (LINZ). Some of this can be done simultaneously. There is a maximum statutory timeframe of eight years to complete a subdivision from the time a consent is granted to when titles have been issued.

Once sections have been titled (and often sold to the new owner or a building company), plans can be drawn up for the home that will go on the site. These plans are lodged with Council for building consent. Once the building consent is approved, there is a two-year window to complete the build. Once the build is finished and passes its compliance check, a Code Compliance Certificate (CCC) is issued and the house is ready for its new owners to move in. In 2023, the average time from building consent to CCC was 12 months.

HOUSING

Subdivision lots consented

878 subdivision lots granted

DOWN 58% ON 2022

In 2023, subdivision consents slowed considerably in both our existing suburbs (infill) and in our greenfield areas. There were just 878 lots granted in 2023, compared to 2089 in 2022, and 86% of those lots were in existing suburbs (infill). In infill, a "subdivision" is usually small scale and generally happens when an old house on a big section is demolished and replaced with new duplexes or townhouses.

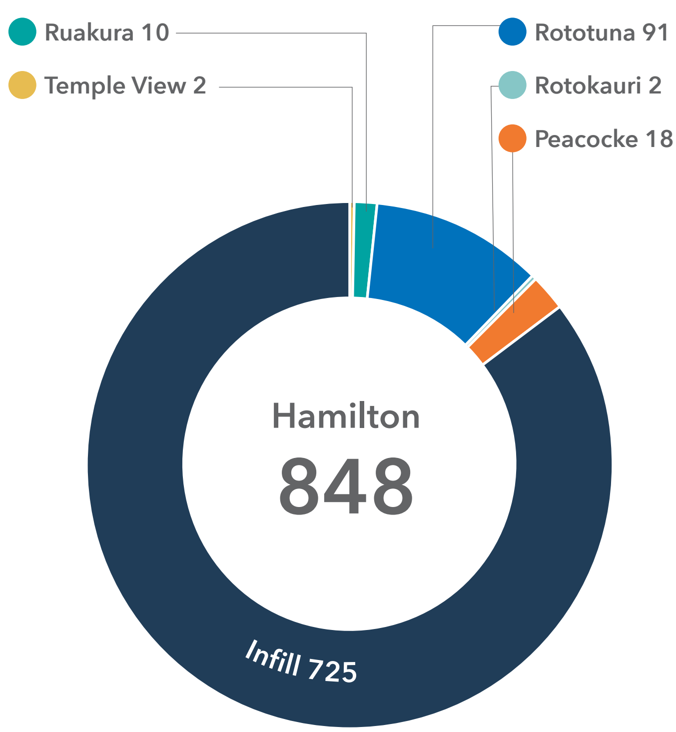
In 2023 there was a 'surplus' of sections available in Hamilton. In 2021 the housing market was at its peak and there were very few sections available for direct purchase. Building companies had presold their existing stock of sections and were demanding more. Land developers responded by starting the next stages of their developments. Much of this development was completed in 2022, leaving building companies with large portfolios of sections but few customers.

The current surplus means that, for the first time in a long time, there are multiple bare sections available on the open market, as well as the house and land packages available through building companies. Land prices remain high, and with tight finance conditions, higher interest rates and higher building costs, developing in our greenfield areas is challenging.

Unlike previous years, there were no large multiple-lot consents granted in 2023. Subdivision has continued in the infill areas but at a reduced rate. Kāinga Ora consented 197 or 22% of all lots, making it the most active developer in the city in 2023.

Subdivision lots granted in 2023

Source: Hamilton City Council



HOUSING

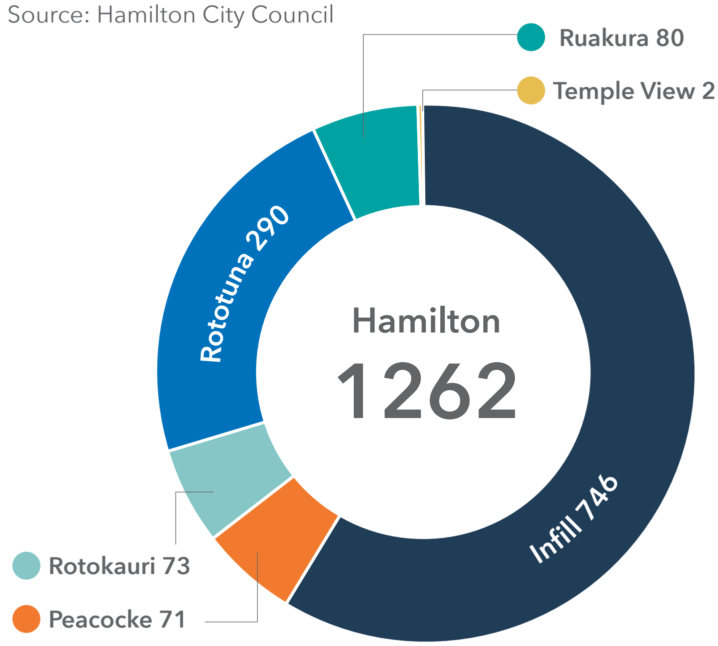
Sections and units titled (224c)

1262 sections and units titled

DOWN **10%** ON 2022

Titles issued in 2023

Source: Hamilton City Council



Generally, after a subdivision consent is granted and various pre-certification approvals are obtained, a developer will be issued a 224c certificate by Council. This allows a developer to apply to LINZ for a title. Once the title is issued, a developer can sell a section separately. The issuing of a 224c certificate is in almost all cases followed by an application for and issuance of legal title over the land, which is why we refer to them as 'titled sections'.

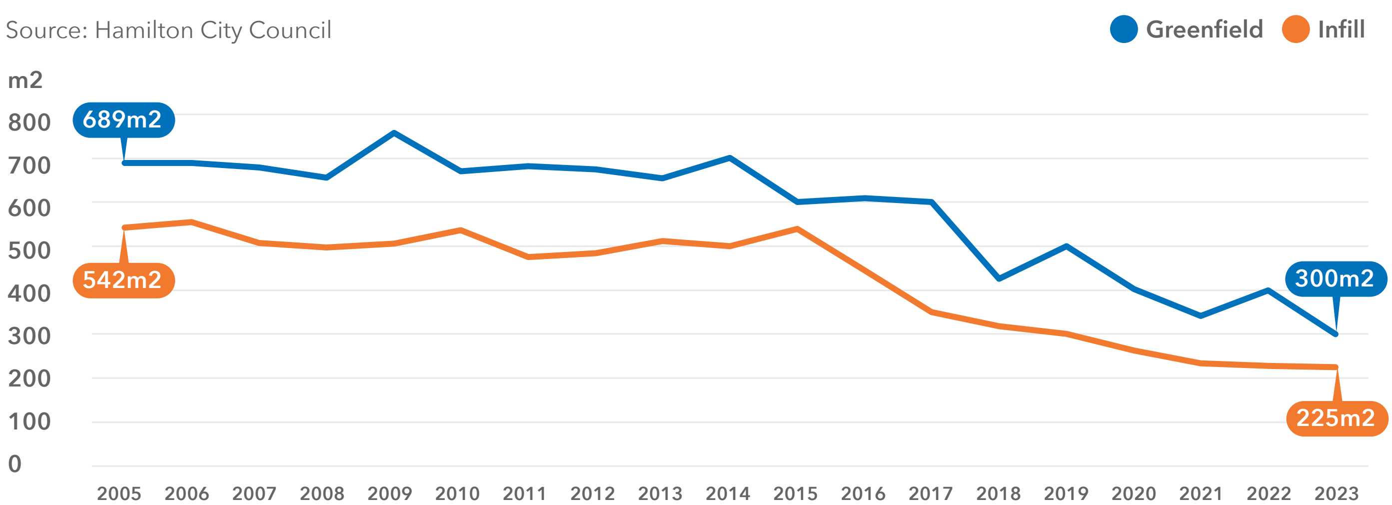
In 2023 there were 1262 new titles issued across the city. Of those titles, 59% were for infill areas and 23% were in Rototuna (a greenfield area).

As land prices have increased and density rules have changed, Hamilton has seen section sizes fall. A relaxation of planning rules, which were notified in 2012 and became operative in 2017, encouraged the development of duplexes throughout the city. The current operative planning rules allow one duplex (two attached dwellings) on 400m2 of land, the equivalent of 200m2 per dwelling, across most of the city.

The graph demonstrates the fall in section size, as the trend of subdividing quarter acre sections to add a second dwelling waned and demolishing the existing home to build four (or more) new duplexes increased. Hamilton has also seen an increase in density in greenfield areas, with smaller sections, duplexes and townhouses now more common, rather than standalone homes on large sections as was the norm until 2014.

Median new section size

Source: Hamilton City Council



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HOUSING

Building consents granted

Residential consenting continued to fall in 2023 with a total of 1231 new dwellings consented compared to 1416 in 2022. Falls were seen in both infill and greenfield consenting, although infill consents remained above both the five and ten-year average. Infill consenting fell 6% to 911 dwellings from a record high of 965 dwellings in 2022. On average over the past 10 years there were 749 new dwellings consented in existing suburbs each year.

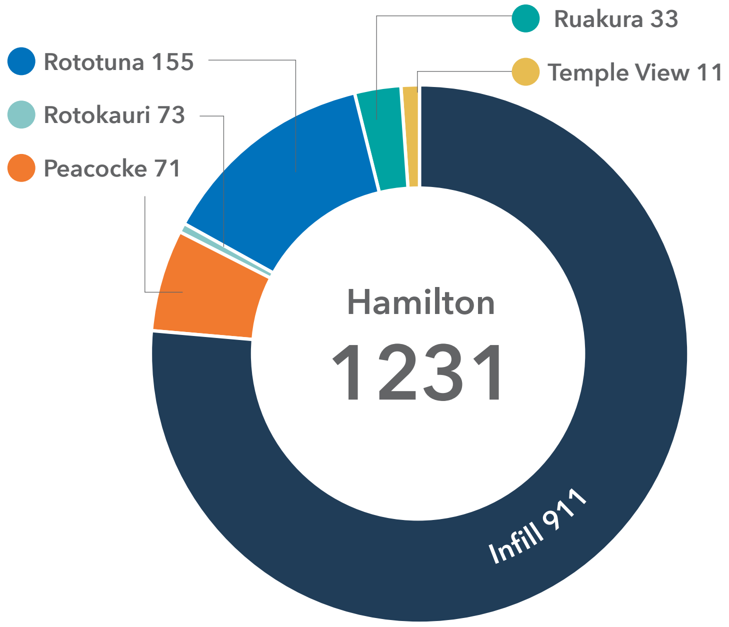
Greenfield consenting fell another 29%, with just 320 dwellings consented in 2023. At its peak in 2021, Hamilton saw 775 new dwellings consented in the greenfield areas. Rototuna has been Hamilton's largest greenfield growth cell for the past 10 years, with two-thirds of all greenfield development taking place in the area. It has also seen a 70% fall in new dwellings, from a peak of 521 in 2021, to just 155 in 2023. Overall, greenfield consenting activity has fallen 59% from its peak in 2021 and currently sits 42% lower than the 10-year average. Peacocke, although only a small portion of the total greenfield area in Hamilton, was the only area that did not see a drop in consenting activity.

1231 dwellings granted

DOWN **13%** ON 2022

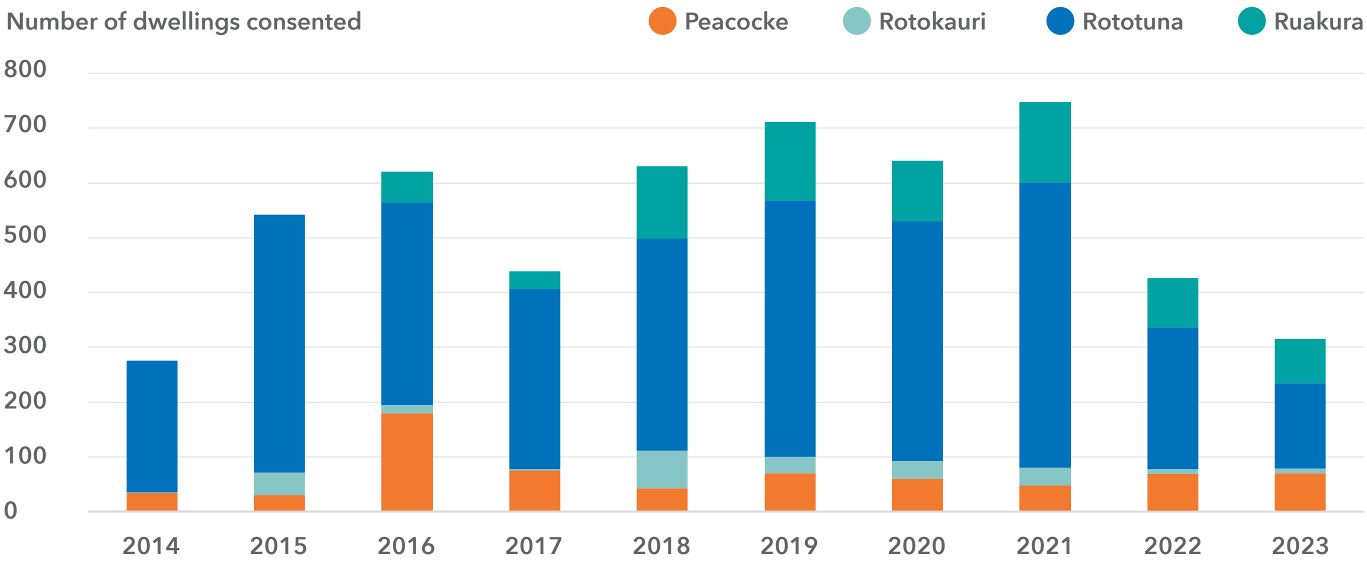
Consents granted in 2023

Source: Hamilton City Council



New dwellings consented in greenfield areas

Source: Hamilton City Council



Infill activity was buoyed by Kāinga Ora development in 2023, with 276 new infill dwellings consented - 30% of all infill development in Hamilton. This is similar to levels seen in the early 1940s and 1950s when nearly 30% of all new homes constructed in New Zealand were "state homes" according to Statistics New Zealand (StatsNZ) yearbooks.

Kāinga Ora has an extensive building programme underway in Hamilton, as well as a high number of acquisitions. We estimate that 40% to 50% of all infill builds across the city are for Kāinga Ora, as part of either their build or acquisition programme. At the end of 2023, there were still 1675 households on the housing register waiting for a home, including 644 households in emergency housing. While the number of households on the housing register has decreased from the peak of 1739 in September 2022, there remains a significant deficit of housing. A lull in construction has created capacity within the sector for Kāinga Ora to achieve its ambitious public housing target in Hamilton.

So, why is the infill story so different to greenfield? One reason is the activity driven by Kāinga Ora. The other leading reason is price point. In a tighter financing environment where banks have a lower risk appetite and higher interest rates, people are generally able to borrow less and require greater certainty of project costs. New homes in greenfield areas have mostly been standalone homes on a 400m2 to 600m2 section. These sections are typically marketed upwards of $450,000 while house and land packages are upwards of $900,000, with most over $1 million. A new three-bedroom home on a 200m2 to 300m2 section in an infill area starts at around $700,000 with the most expensive options on the market costing around $890,000.

Another challenge is the price difference between a new build and an existing home. When this difference is small, people are more inclined to pay a little extra for a new home that needs no renovation, is fully insulated and low maintenance. As the difference widens, people are more inclined to select an older home because the lower price enables them to save money or renovate. Older three-bedroom homes are currently marketed from about $500,000. While many existing homes have similar price points to a new duplex or townhouse, they tend to sit on larger sections, a popular feature for kiwi buyers.

The relationship between consenting and house prices

Consenting activity generally reflects the economic conditions, which currently include high interest rates and lower house prices. Increasing interest rates have made financing harder for both developers and home buyers. Higher interest rates generally reduce the maximum amount that people can borrow, which can effectively stop or reverse rising house prices. In this type of market, more expensive properties are usually the first to see a reduction in demand.

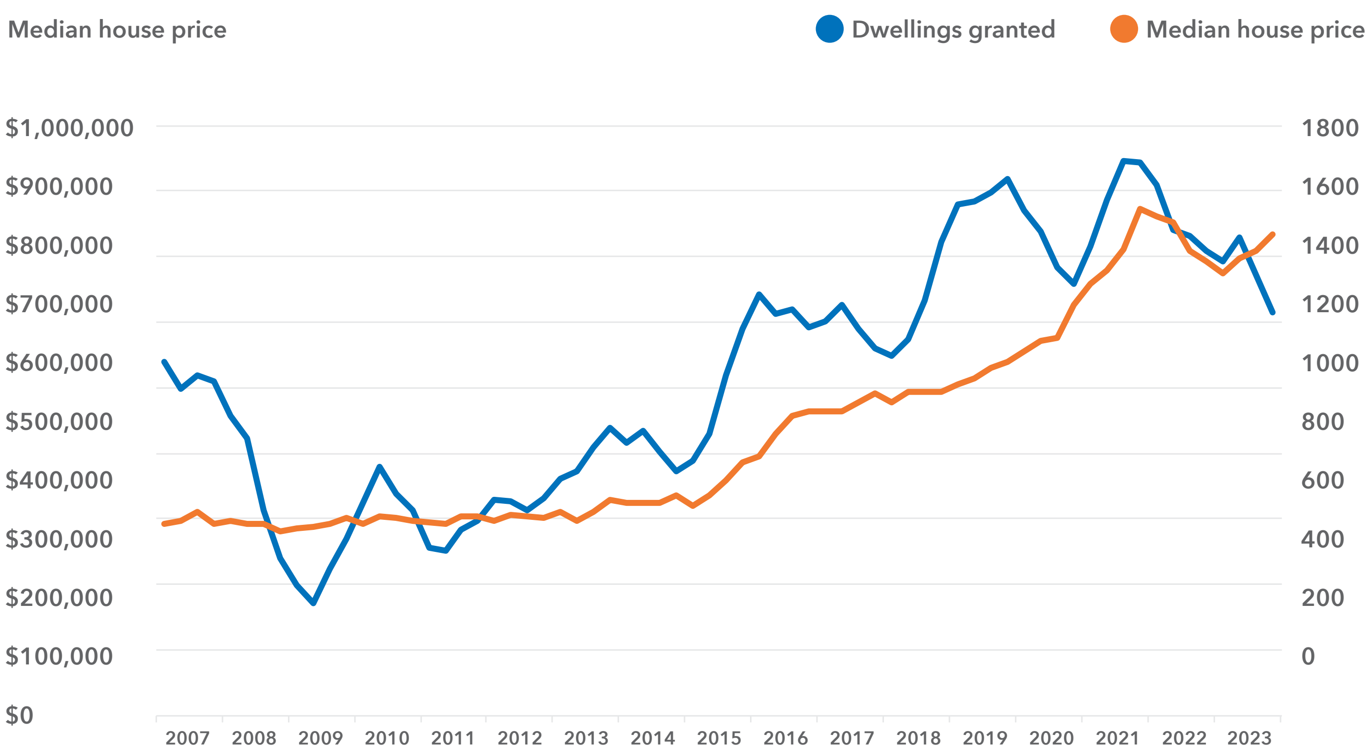
There is a correlation between house prices and annual dwelling consent numbers shown in the graph below. Consenting numbers generally fall before house prices do, and a small change in house prices (or the threat of a change) can have an exaggerated effect on consenting activity. Last year however, the trend reversed: house prices have risen but consenting has not increased. This is likely because severe economic conditions and poor feasibility hindered the ability of developers to engage in new development projects.

In the June and September quarters of 2021, consenting hit record highs in both infill and greenfield areas. Interest rates were low, and demand was at an unprecedented high. In October 2021, the RBNZ made its first OCR increase and indicated at that time it expected to raise it further, from 0.25% to 2% by 2024. In response, consent numbers fell in greenfield areas and initially in infill as well. In November 2022, the RBNZ announced that the country would likely need a recession to bring inflation down, and it raised the OCR to 4.25% and tempered its economic forecasts. This was met by an almost immediate reduction in consent applications.

In order to see residential consenting activity improve, an increase in demand is needed, which would push up the final sale price to a point where builders, developers and their banks are confident of turning a profit on the project. The current economic environment is high risk, meaning finance is difficult to secure and it can be difficult for developers to favourably balance the development equation.

House prices and consenting trends

Source: Hamilton City Council



HOUSING

Houses under construction

The number of houses under construction is constantly changing as new homes are completed and new projects begin construction. This can reflect economic activity but also challenges that cause delays in completing construction.

There were 803 houses under construction as at 31 December 2023, down from 1110 in December 2022. There are two main causes for this decrease. Firstly, supply chain issues that plagued the construction sector during the pandemic have now eased and materials and labour are now readily available. Secondly, fewer consents granted means there are fewer houses lined up to start construction.

In 2023, Hamilton saw a change in the way new homes were supplied to the market. In 2021 and 2022, new builds were commonly purchased

from the plans prior to construction in both greenfield and infill areas. By 2023, falling demand saw a move to building "speculative homes" (spec homes), where a builder begins construction on a house before a buyer is secured. As the house nears completion, it is sold on the open market as a completed home. This change came at a time when buyers were struggling to get finance, and after two years of high price inflation and cost blowouts. Banks wanted price certainty and wanted to know that their investment was secure. Buying a completed home became preferable (and possible) for both the bank and the buyer.

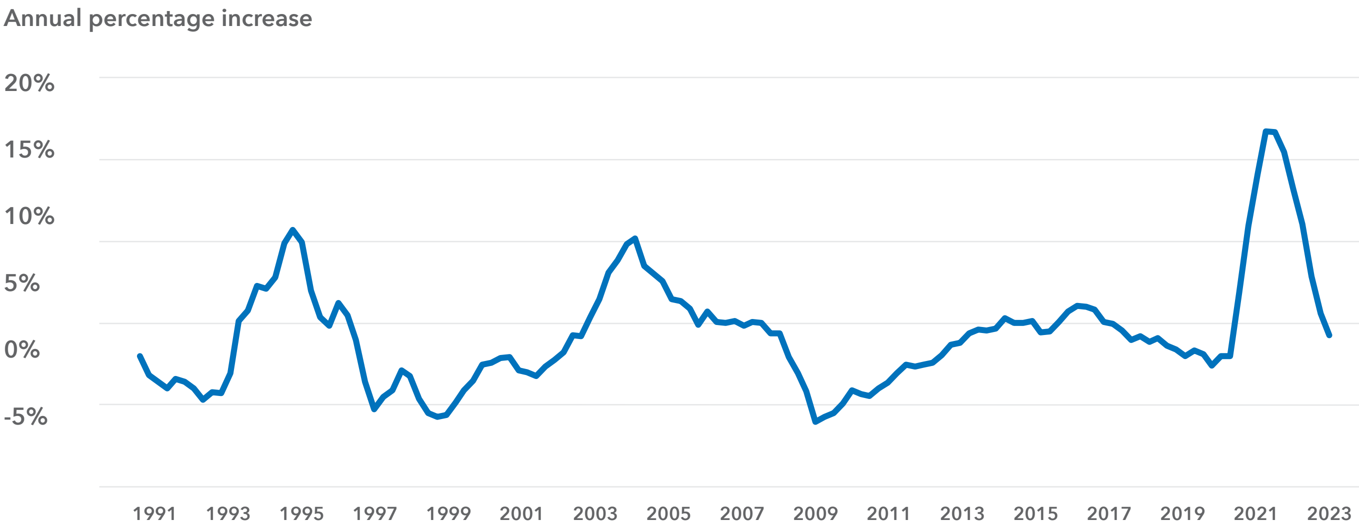
Dwellings under construction

Source: Hamilton City Council

Inflation on residential construction costs returned to pre-pandemic levels by the end of 2023. Residential construction costs increased 4% in 2023, down from 13% in 2022 and 14% in 2021. While this is a positive shift, it is worth noting that construction costs remain 39% higher than they were in 2019. Since 1989, annual construction cost inflation has only dipped into negative territory three times, so the likelihood of substantial price declines appear slim.

Residential construction cost inflation

Source: Statistics New Zealand



HOUSING

Homes completed

In 2023 there were 1257 new homes completed in Hamilton. This is 13% less than in 2022, and aligns with the fall in consenting in 2022. Over the next 12 months, we expect to see a further fall in completions as there are fewer granted consents in the pipeline.

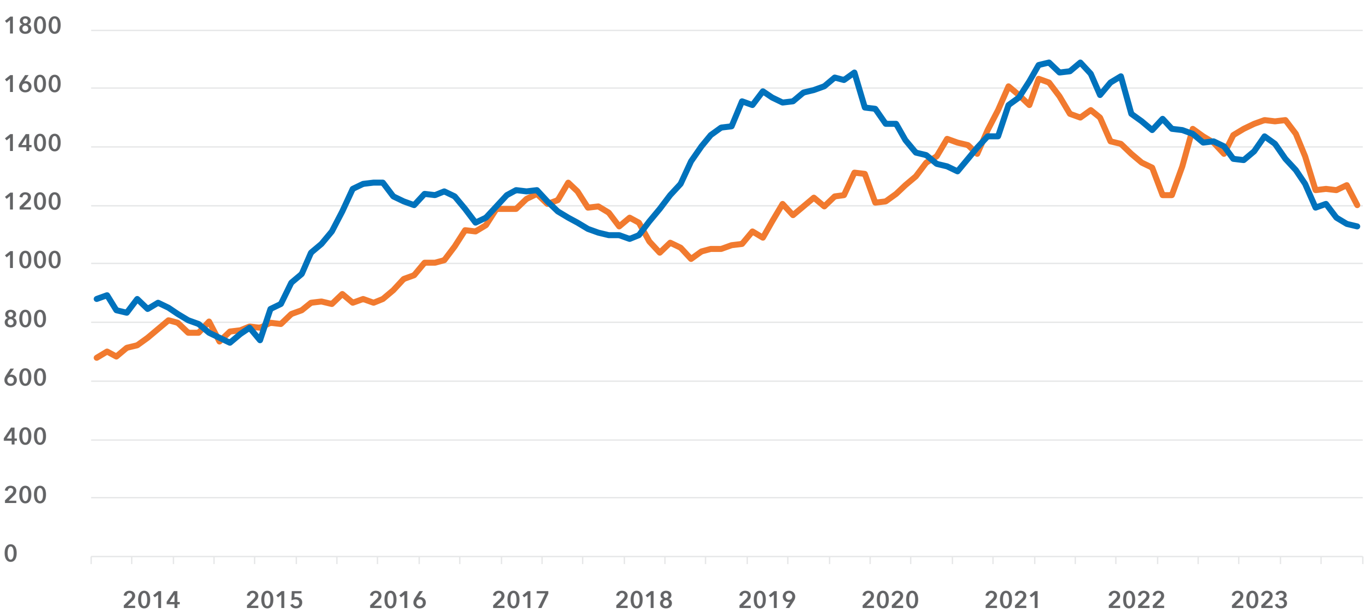
The time between when a consent is granted and when that dwelling is completed increased to 12 months in 2023, up from 11 months in 2022 and eight months in 2021. Developers and builders have reported that delays are often being caused by challenges with finance.

1257 homes completed

DOWN **13%** ON 2022

Trends from consent to completion

Source: Hamilton City Council



In 2023 the number of consented dwellings that had not yet started construction increased noticeably. At its lowest in August 2022, there were 380 dwellings consented but not started. This rose to 515 dwellings at the beginning of 2023 and increased further to 744 dwellings by the end of 2023. There was no significant difference between standalone and attached dwellings.

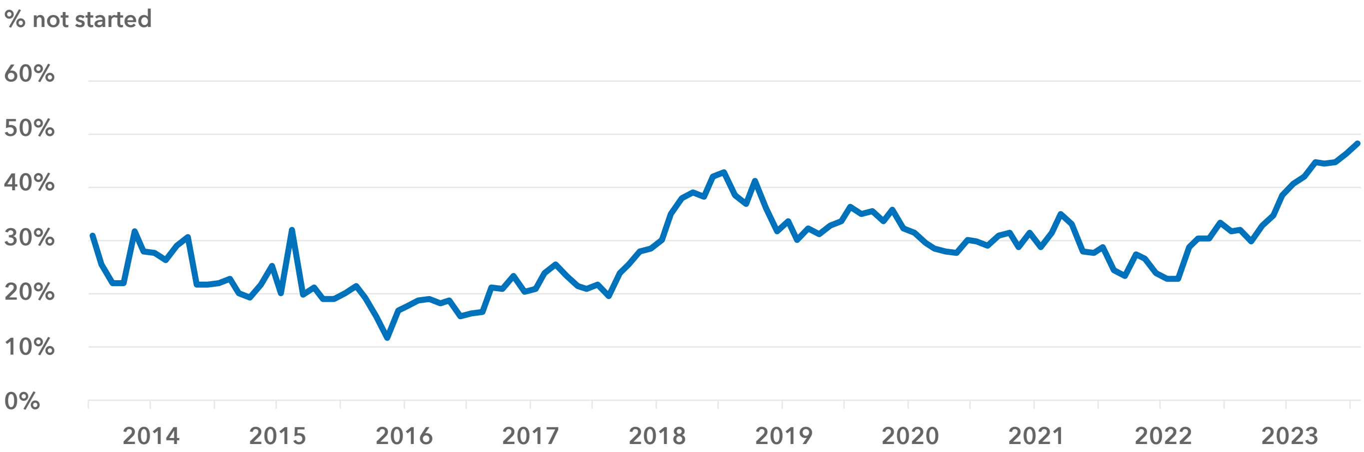
There are a few factors at play here. Firstly, current economic conditions are less conducive to development. House prices are low, building costs are high, and demand for new builds is relatively low. Building consents are valid for up to two years, so some developers are waiting for market conditions to improve.

Another factor is the challenge of financing projects. Banks are risk averse and with fewer pre-purchases supporting a development, getting a project across the line is much harder. Developers are doing more speculative projects (building a house without a buyer lined up) to keep their work programmes ticking over. Projects are being consented in advance, then when one build is finished (and in some cases sold), they start the next one. Lastly, new insulation requirements came into effect in April and November 2023. We understand that in some cases consents were lodged to avoid the costs of these additional requirements.

There is usually a lag time between the grant of consent and a first inspection, however, the overall trend suggests that a greater number of projects are on hold. While concerning, it means that there are many projects consented and ready to begin construction when the economic conditions, interest rates and house prices improve.

Percentage of dwellings granted but not yet started

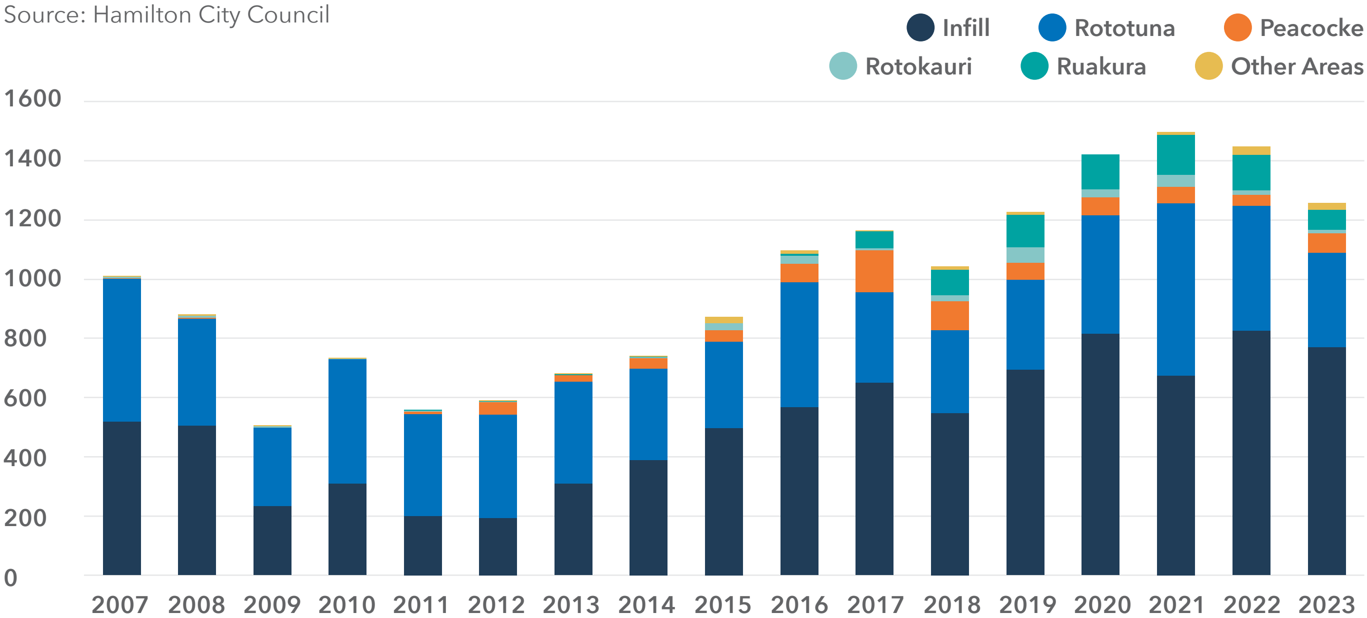
Source: Hamilton City Council



Infill areas continued to have the highest number of completed dwellings, with 771 new homes completed in 2023. Rototuna was the busiest greenfield growth area with 318 new homes completed. However, completions were down 7% in infill and 22% in greenfield compared to 2022.

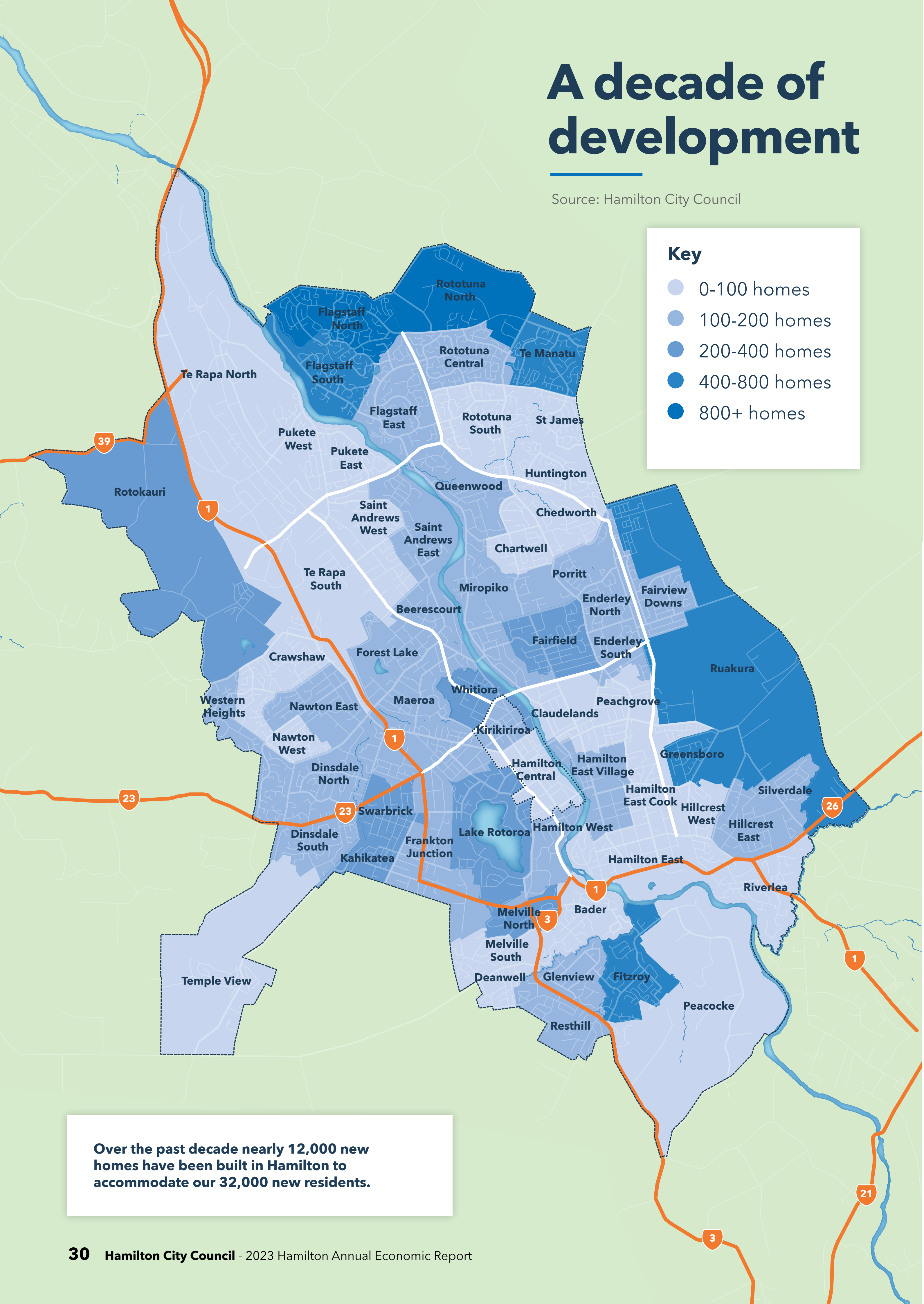
New houses completed (CCC issued) by growth cell

Source: Hamilton City Council



A decade of development

Source: Hamilton City Council



Over the past decade nearly 12,000 new homes have been built in Hamilton to accommodate our 32,000 new residents.

HOUSING

Our residential greenfield growth areas

Greenfield subdivision saw a significant fall in demand in 2023 as house prices dropped. The traditional model of buyers signing up front for house and land packages slowed considerably. Some companies started on a more speculative model where they built "spec" houses and then sold them on completion, similar to what is seen in infill areas. As such there was significantly less activity in all aspects of development in greenfield throughout the year.

Note that there is some overlap between the numbers below for each stage of development. Some homes and sections were consented prior to the start date used here for the growth area.

Peacocke

1556 sections Resource consent granted

496 sections Sections finished (titled)

358 homes Building consent granted

372 homes Completed

4100 homes Total

FROM **2018** → TO **December 2023** → BY **2041**

Peacocke, our southern greenfield growth cell, was a hive of infrastructure activity in 2023 with work advancing on the bridge over the Waikato River, the Peacocke wastewater transfer station and roading, despite challenges caused by adverse weather and Cyclone Gabrielle. The wastewater transfer station opened in March 2024 and the bridge is expected to open in mid-2024, unlocking development in the second and largest stage of the Peacocke growth cell.

In 2023, another 18 sections were consented to be subdivided, and 71 sections received title including 41 lots in Aurora and 24 lots in Dixon Heights. Consents to build new homes continued at a similar rate to previous years, with 70 new dwellings consented in 2023. This bucked the wider trend of falling consent numbers seen in greenfield growth cells.

The number of homes completed in Peacocke increased to 66 homes in 2023 with 56 located in Peacocke stage 1 and 10 in stage 2. This was the highest number of completions since 2018 and the only growth cell that saw an increase in 2023.

Peacocke will eventually be home to about 20,000 people. We expect about 4100 homes in the area by 2041, with capacity to grow to a total of 7400 homes.

Rotokauri

FROM 2014			TO December 2023	BY 2041
622 sections	330 sections	242 homes	222 homes	3200 homes
Resource consent granted	Sections finished (titled)	Building consent granted	Completed	Total

Rotokauri is located on the north-west side of Hamilton and has extensive residential and employment areas. A large stormwater swale (the Rotokauri Greenway) is needed to unlock further residential development in the area. Further residential development is limited until the swale is complete. Detailed design work is progressing well and the consenting process for the swale is now underway.

The 108-hectare Edin Rotokauri site at the northern end of Rotokauri was put on the market in 2023. The site has a masterplan for 1500 homes and was enabled as a Special Housing Area (SHA).

While only two lots were granted subdivision consent in 2023, there were 73 titles issued as many of the lots consented in 2022 were completed. Consenting of new homes was quiet with just nine new dwellings consented and 11 homes completed in 2023. Residential building activity has fallen heavily since 2021.

Rotokauri will eventually be home to about 22,000 people and by 2041 we expect there to be 2400 new homes in the growth area.

Rototuna

4891 sections
Resource consent granted

2969 sections
Sections finished (titled)

7184 homes
Building consent granted

7513 homes
Completed

9500 homes
Total

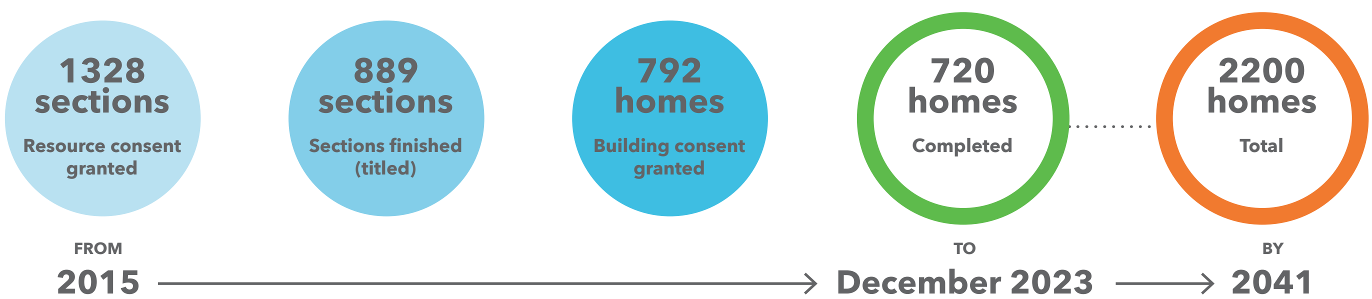
FROM **2005** → TO **December 2023** → BY **2041**

Rototuna is located in the north of Hamilton on the east side of the river. It is Hamilton's oldest greenfield growth cell and is expected to be close to completion in the next 10 years. We estimate that there is capacity for around 2000 more dwellings in Rototuna. Until 2021, Rototuna was home to 30% of the city's growth and most of the greenfield growth. Since 2022, the downturn in the housing market has seen consenting in Rototuna fall from a 2021 peak of 521 new dwellings to just 155 dwellings in 2023.

Since 2005, Rototuna has seen 4891 new sections titled and over 2005 new homes built. The data shows more houses built than sections because some sections (and homes) were consented prior to 2005. In 2011, 62% of all new homes in Hamilton were in Rototuna (346 homes). At its peak in 2021, 585 new homes were completed in Rototuna – 39% of all new homes completed in Hamilton that year.

In July 2023, Council opened the new Rototuna Library – Te Kete Aronui - named after one of the three baskets of knowledge. By December, 150,000 visitors had visited the new library which includes a café and play spaces. The project was developed with significant community and mana whenua involvement.

Ruakura



Ruakura is located on the eastern side of Hamilton. The entire growth area covers 822 hectares and is zoned for both residential development and employment land. In 2023, extensive development was underway in the employment areas. Ruakura's main subdivision is still Greenhill Park at the northern end of the growth area.

Only 10 subdivision lots were granted in 2023. However, we estimate that there are 432 consented lots that have yet to receive title, and another 98 sections with titles that are yet to be built on. Whilst there is still capacity to cater for demand in Ruakura, subdivision consenting will likely remain low.

Work also progressed on Tuumata Rise, a new residential development by Tainui Group Holdings adjacent to Fairview Downs. Titles are due to be issued in the first half of 2024 for the first of 74 lots in the subdivision. Sections are 435m2 to 621m2, with some options for duplex builds. Section prices are currently marketed from $413,000 to $622,000 for a site that could have a duplex built on it.

Ruakura had the second most building consents granted in greenfield areas after Rototuna. In 2023, 81 new dwellings were consented, and 68 new homes were completed.

Ruakura will eventually be home to 8000 people in about 3300 homes. We expect about 1500 homes to be in the area by 2041.

HOUSING

House sales

In 2022, house prices began to fall. The median house price in Hamilton had fallen nearly $87,000 (10%) by December 2022. Further price falls were expected in 2023, and by March 2023 we saw a median house price of $750,000 in Hamilton - $109,000 lower than the 2021 peak. However, prices actually started to increase in the June 2023 quarter and by December the median price was $815,000.

Hamilton's median house price has more than doubled since 2014 when it was $365,000. In line with New Zealand trends, house prices in Hamilton rarely decline across the board and when they do, it's usually for a short period. Since 2006, prices have only been negative twice and the median house price has remained trending upwards. National data, which dates back to 1990, shows price falls in just eight of the 35 years, and most of these falls were in recessionary periods that followed a global economic "crisis", for example, the Asian Financial Crisis or the Global Financial Crisis.

Median house prices in Hamilton

Source: Hamilton City Council

CITYWIDE
$815,000

EXISTING SUBURBS
$760,000

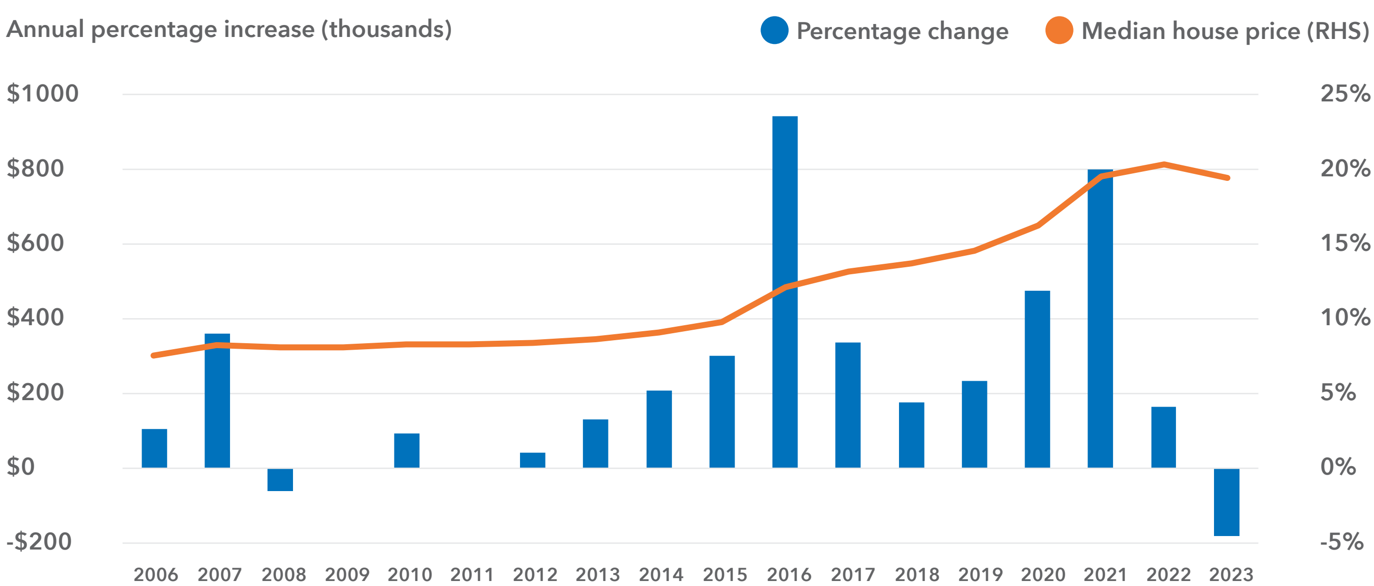
GREENFIELD
$982,000

ATTACHED DWELLINGS
$765,000

STANDALONE HOUSES
$815,000

Annual change in median house prices

Source: Hamilton City Council



From its peak in December 2021, Hamilton's median house price fell 13% by March 2023. Since then, house prices have improved, increasing 8% in the remaining nine months of the year (or 6% compared to December 2022).

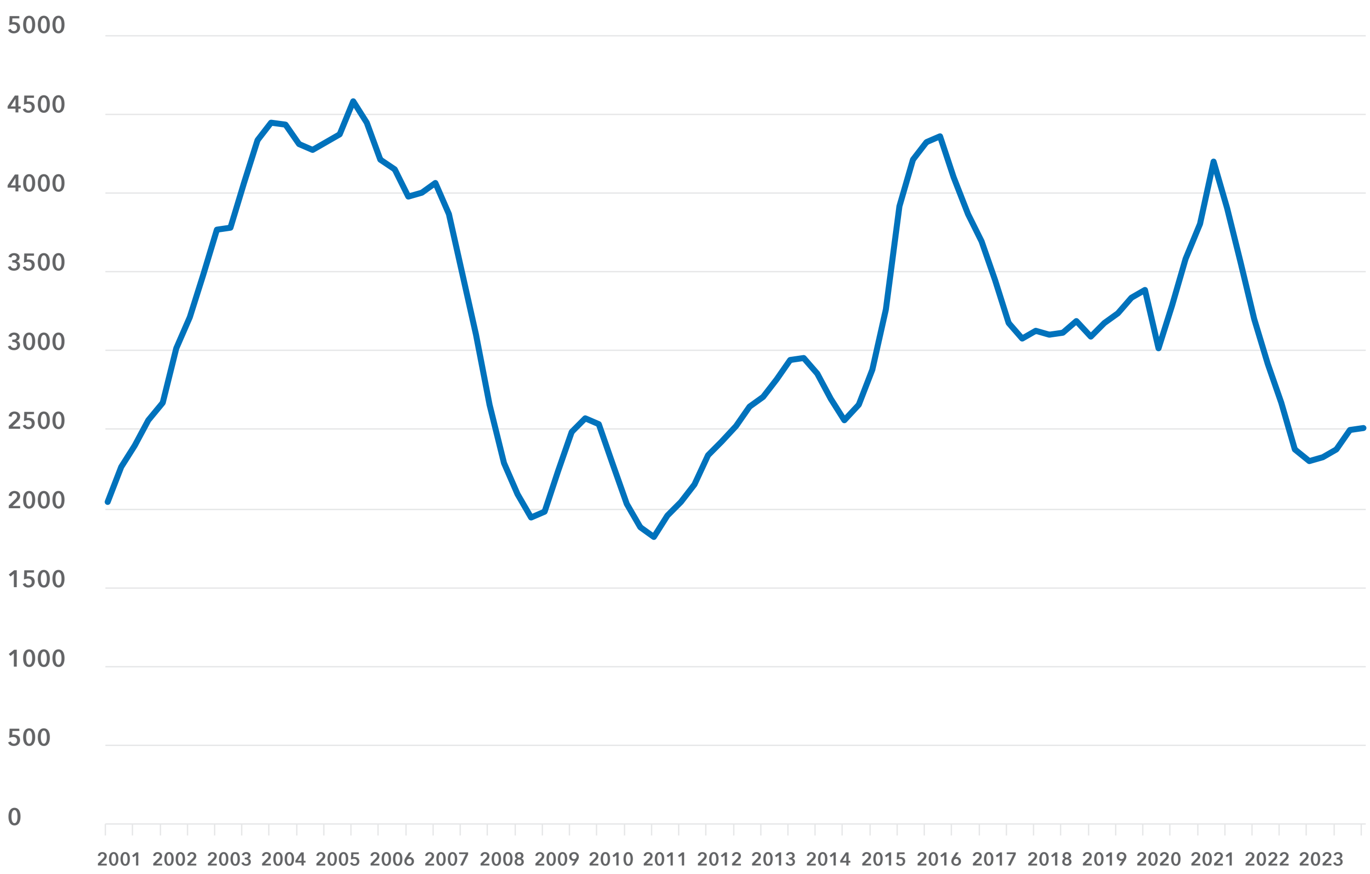
Prices for homes in our existing suburbs have held up better through the downturn than those in greenfield areas. At their lowest, infill house prices fell 13% from the 2021 peak, while greenfield prices fell 16% (nearly $190,000). Compared to the December 2022 quarter, infill house prices were 6% higher than the December 2022 quarter and greenfield prices were 1% higher.

Higher interest rates are partly to blame for the challenges in greenfield areas. As interest rates rose, people were unable to borrow as much or were less inclined to have as much debt because servicing that debt was more expensive. The median price in greenfield areas was over a million dollars in 2021 and 2022, falling to a low of $935,000 in June 2023, before closing in on the $1million mark again in the December 2023 quarter. The median price in infill areas was $760,000 in December 2023 compared to $980,000 in greenfield.

While prices have somewhat recovered, the number of sales has not. In 2023, Hamilton saw the lowest number of sales in over two decades with just 2510 sales recorded. At its most recent peak in 2020, there were 5044 sales. Nationally sales fell to GFC levels in 2023 and are still considerably lower than normal. Hamilton saw a similar trend with sales volumes at lows not seen since early 2012.

Number of property sales in Hamilton, 12-month rolling total

Source: Infometrics



Housing affordability is an increasing concern in many parts of the country, including Hamilton. Since the 1970's, New Zealanders have increasingly invested in housing, more so than other investments like commercial development or growing businesses. An increased demand for investment property, lower levels of housing supply, and high levels of immigration have contributed to climbing prices. In addition, the cost to build has increased, as have expectations about the size of builds. In Hamilton, we have seen building size pull back since the mid-2000s as the cost to build increased.

The Massey Home Affordability Index considers interest rates, house prices and income. The Home Affordability Report for December 2023 showed a decline in affordability across most regions including Waikato due to an increase in house prices and the increased costs of paying a mortgage. Nationally, housing affordability declined 8.7% with Auckland declining 11% and Waikato 6.3%.

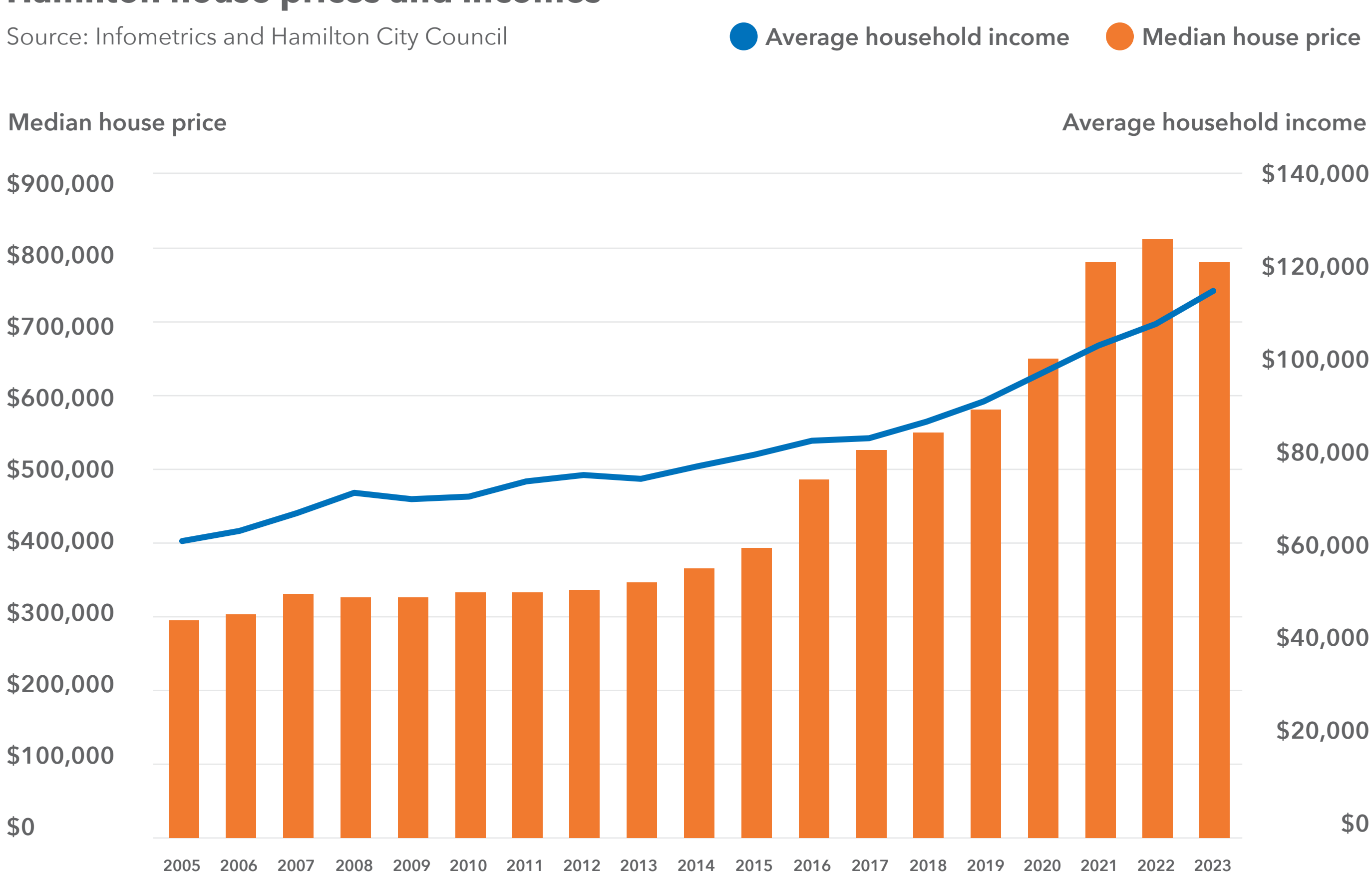
Hamilton house prices were under five times household income until 2015. Since then house price escalation has outpaced income growth. At its worst in 2021/2022, the median house price was 7.5 times higher than the average household income.

From 1 July 2024, RBNZ will apply new debt to income rules to the banking sector. For most lending, debt can not be more than six times higher than income. If this rule was applied to historical Hamilton median house prices, the cap would have been breached since 2020 if the average household also had a 20% deposit.

In 2023, home loan arrears and mortgagee sales began to increase across New Zealand, although they were increasing from historically low levels. In December 2023, overdue mortgages had increased 21% to 20,800 in 12 months, lifting them back to pre-pandemic levels according to the Centrix Credit Report.

Hamilton house prices and incomes

Source: Infometrics and Hamilton City Council



HOUSING

Hamilton's rental market

There has been a broad trend of increasing numbers of rental properties in Hamilton, however, this is against a backdrop of high population growth and falling housing supply. On average, tenancy bonds, which indicate that a property is rented, have increased at under half the rate of new dwellings completed. While we do not know the proportion of new homes that are rental properties, new development is making more rental properties available, whether they are new builds for investors; existing dwellings vacated by a renter moving into a new home; or someone upgrading their existing property and retaining the old one as a rental.

Tenancy Services data showed that in December 2023, there were 21,876 active tenancy bonds recorded for Hamilton, an increase of 3% on December 2022. There were 8340 new bonds lodged in 2023, down 9% on 2022. Rentals where a bond is not lodged with Tenancy Services are not included in this data.

In Council's rating data base, approximately 53% of existing homes in Hamilton are owner-occupied (the address on the rates bill is the same as the property's address). There are over 27,000 properties in the city where the rates bill is sent to another address. Some of these properties will simply have a different postal address, and others will not be rented out. In February 2022, there were 26,350 properties like this in Hamilton.

Rental yields (revenue generated by a property relative to the price of the property) are generally slightly better in Hamilton with the median gross rental yield sitting at 3.2% compared to 2.9% nationally. Compared to Hamilton, rental yields were lower in Auckland and higher in Tauranga and Christchurch.

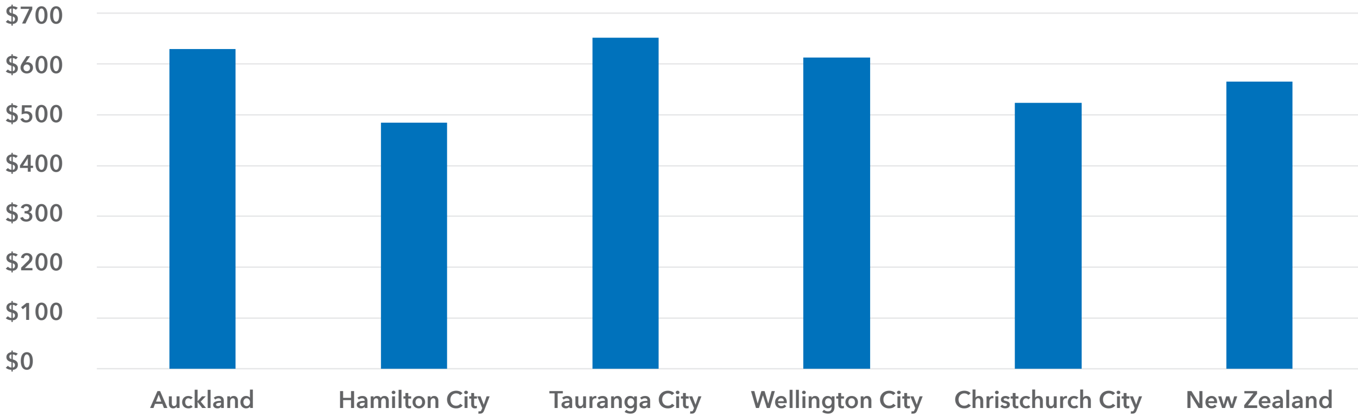
Within Hamilton, rental yields differ by suburb. Areas with lower house prices like Enderley (4.8%) and Nawton (4.4%) have higher rental yields than higher priced suburbs like Queenwood (3.07%).

On average, rents in Hamilton are lower than other major cities. On average, Hamiltonians were paying $471 per week in 2023 compared to $447 per week in 2022, an increase of 5.4%. This increase was lower than all other major cities except Wellington which saw just a 1% increase in 2023.

At the end of 2023, the availability of rental properties in Hamilton was reportedly incredibly low with letting agents reporting vacancy rates of 1% to 3%. High levels of migration in 2023 put significant pressure on our rental market.

Average weekly rent, December 2023 quarter

Source: Infometrics

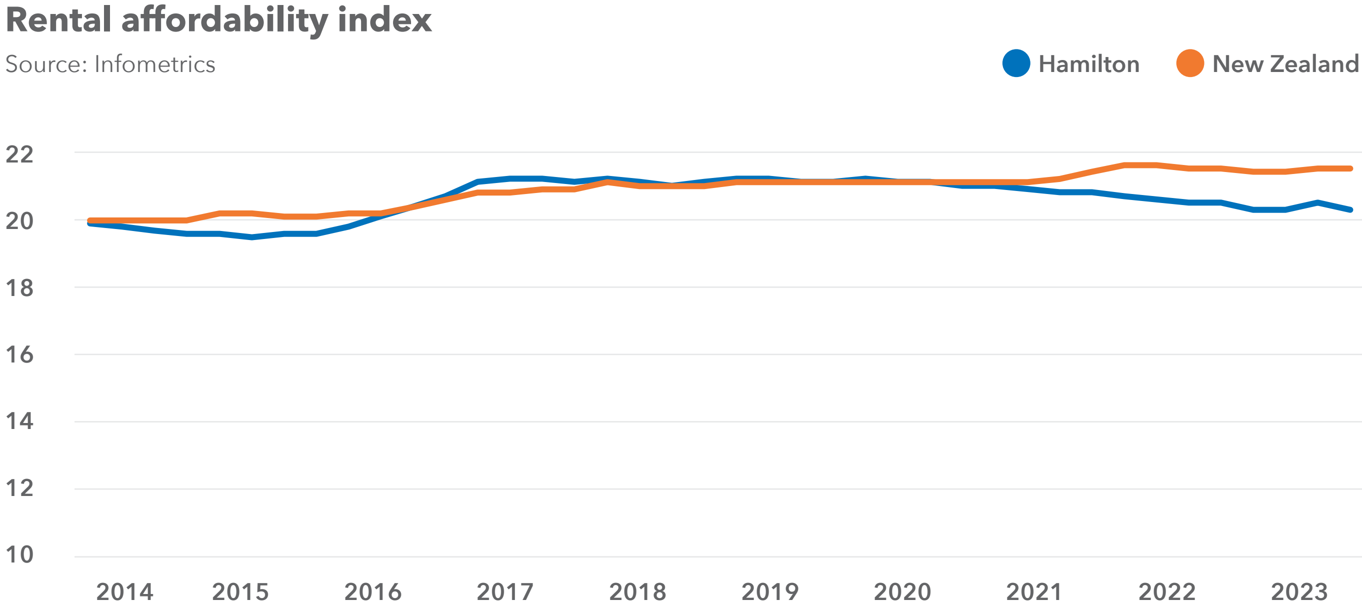


Rental affordability is a rising concern in New Zealand. Massey Real Estate Analysis Unit looks at average rents in relation to average weekly wages to calculate an affordability index. In 2023, Waikato's affordability index was 95% of the national average meaning that renting in Waikato was more affordable than other parts of the country including Auckland and Bay of Plenty. Regions with average higher wages like Wellington performed better on this index.

Infometrics' rental affordability index suggests that there has been little change in rental affordability in Hamilton over the past year, largely due to increased income. Between March 2019 and September 2022, rental affordability improved in the city because of increased incomes. Of course, there are broader cost-of-living challenges that are making times tough and household have little room to absorb rent increases on top of all other cost increases.

Rental affordability index

Source: Infometrics



Airbnb is often seen as a competitor to the supply of rental houses. In Hamilton there are 686 Airbnb listings, of which 70% are entire homes. This would equate to roughly 2% of the estimated rental stock in Hamilton. This is a 36% increase on listings from the previous year. The average Airbnb occupancy rate sat at 61% in Hamilton.

Commercial and industrial development

COMMERCIAL AND
INDUSTRIAL DEVELOPMENT

Consenting trends

Non-residential consenting activity in 2023 was a mixed bag making for a smaller pipeline of projects, but there remained a healthy level of construction activity around the city.

While industrial consenting has decreased from 2022 levels, consents remain at a historically high level. Hamilton experienced remarkable industrial growth in 2022 with 153,000m2 of new space consented. 2023 was the year that many of these new businesses opened their doors.

Commercial consenting, however, retracted further to 16,800m2 – the lowest on electronic record. Commercial development has been more sensitive to the economic disruption and uncertainty of recent years. In 2023, interest rates were starting to bite, and the economic outlook had deteriorated. Business confidence was low. On average, 50,500m2 of new commercial floor area has been consented each year for the past 10 years.

78,100m2
of commercial and residential floor area consented

DOWN 49% ON 2022

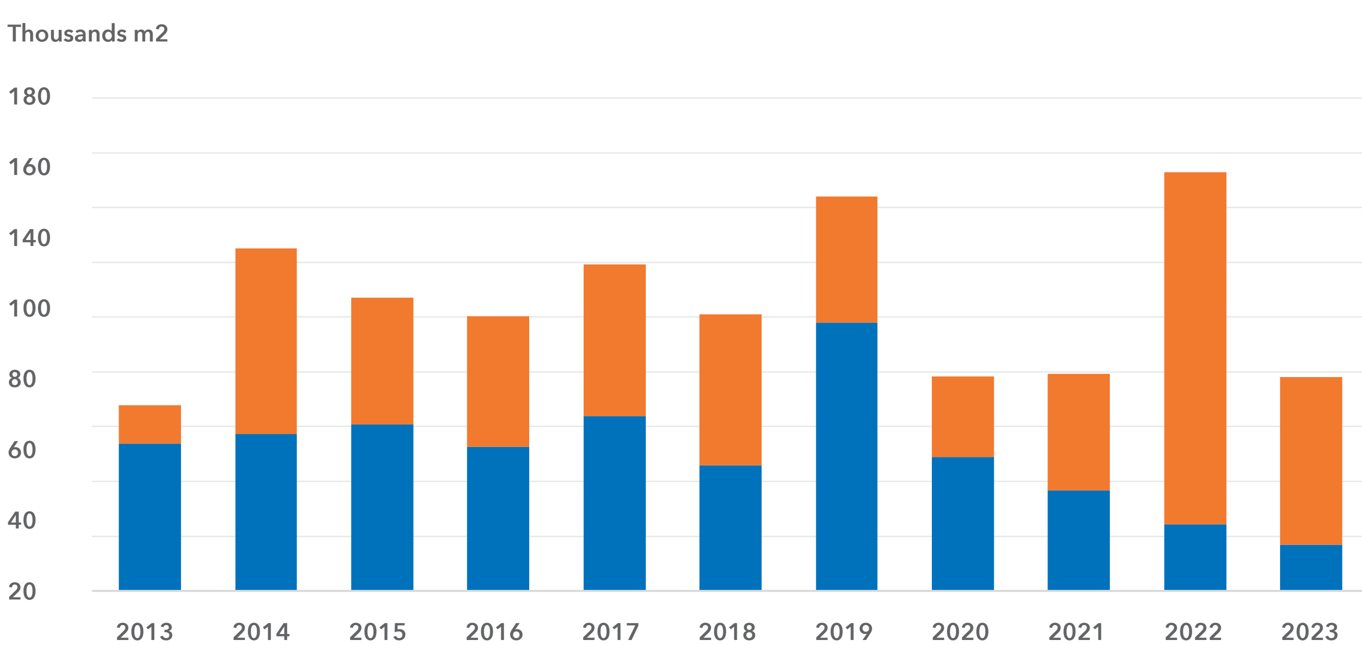
The industrial sector has 61,300m2 of new floor area consented by the end of 2023, down 52% from the record high of 128,600m2 in 2022. Over the past 10 years, an average of 58,000m2 of industrial floor area has been consented each year, but this is skewed by last year's high level. 2023 ranks third highest for industrial consenting over the past 10 years.

In 2023, the total value of non-residential consenting was $271 million, down 16% from 2022. This included $117 million of commercial development and $154 million of industrial development.

New floor area of non-residential development (m2)

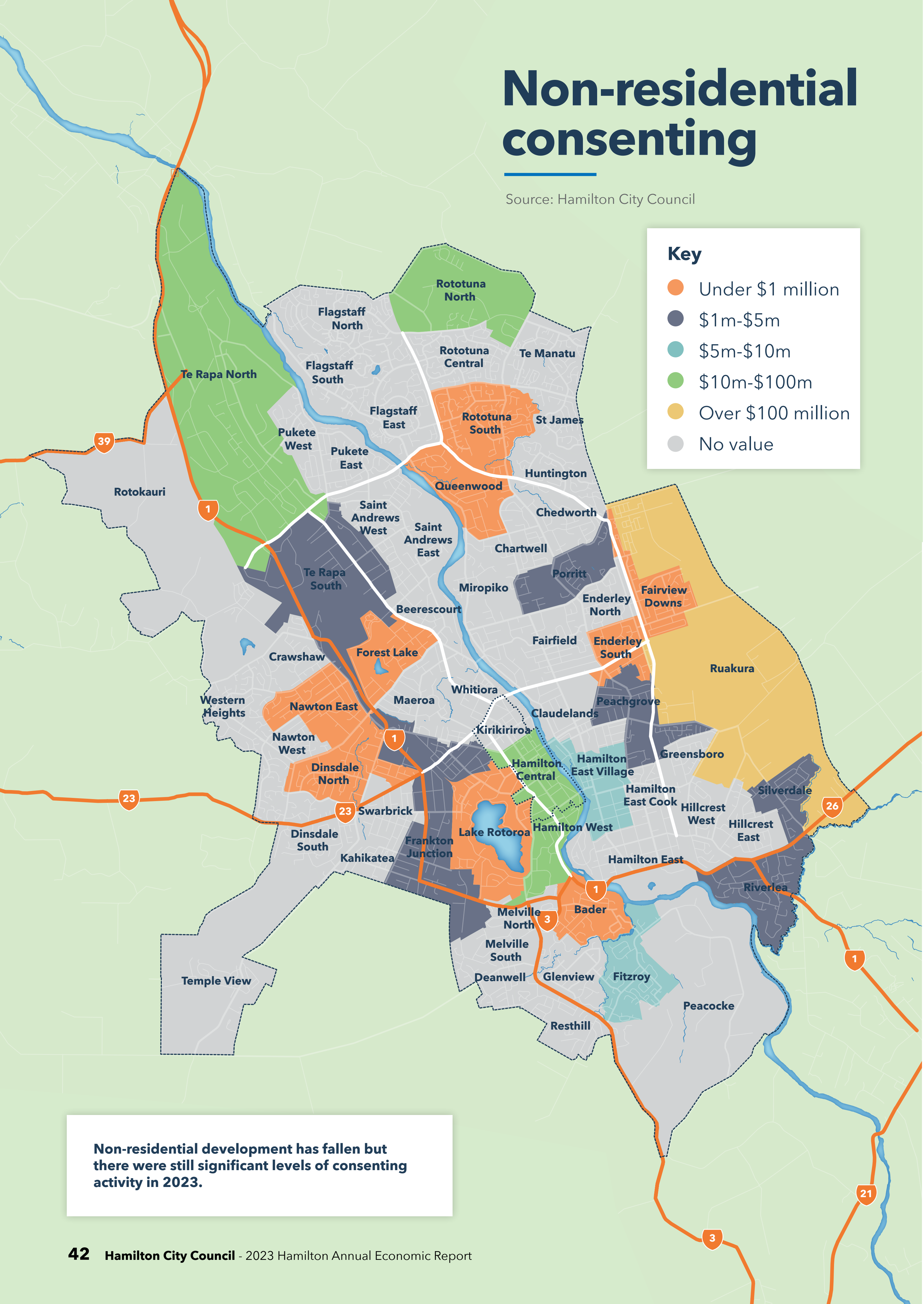
Source: Infometrics

Commercial Industrial



Non-residential consenting

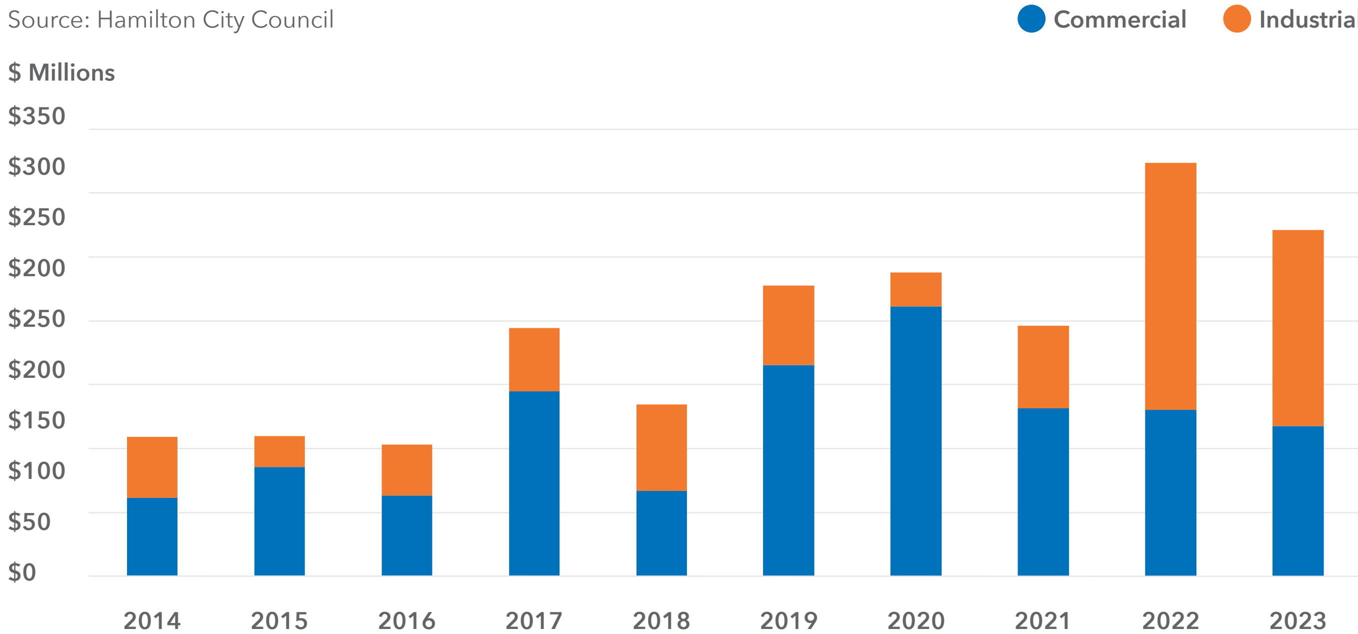
Source: Hamilton City Council



Non-residential development has fallen but there were still significant levels of consenting activity in 2023.

Value of non-residential development

Source: Hamilton City Council



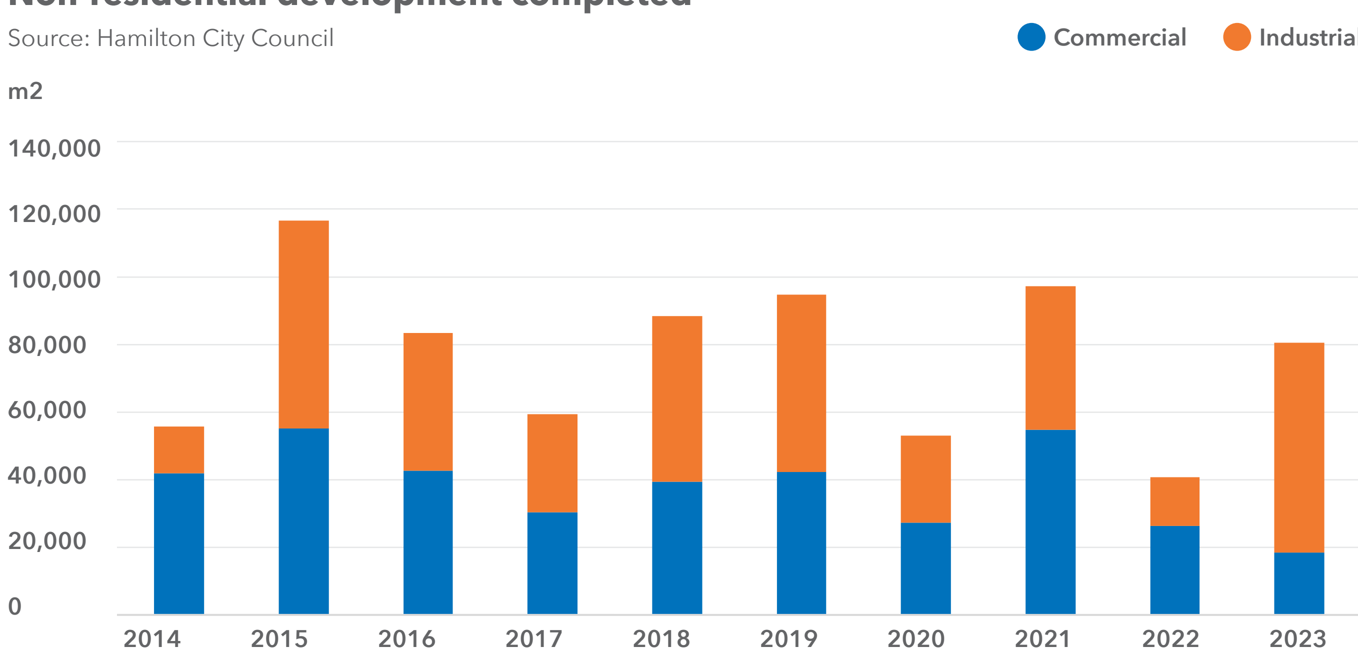
In 2023, substantial industrial and commercial development work was underway across the city. We estimate that there was 120,100m2 of new industrial and commercial floor area under construction, with 38% (45,500m2) commercial development and 62% (74,600m2) industrial development.

While this was down from the 141,500m2 under construction in December 2022 (48,000m2 commercial and 93,500m2 industrial), it remains at a historically high level of non-residential construction. This high level of construction activity was driven by the record level of industrial development consented in 2022.

In 2023, a total of 80,500m2 of new non-residential floor area was completed in Hamilton, an increase from 40,700m2 in 2022. Industrial development accounted for 62,100m2 while commercial development accounted for 18,400m2. On average over the past 10 years, 37,800m2 of commercial floor area and 39,100m2 of industrial floor area has been completed each year.

Non-residential development completed

Source: Hamilton City Council



COMMERCIAL AND INDUSTRIAL DEVELOPMENT

Ruakura - Hamilton's new industrial superstar

The Superhub is being developed in partnership with Tainui Group Holdings and the New Zealand Government, to invest in New Zealand's largest integrated development. It will deliver major economic, social, environmental and cultural benefits to Waikato and New Zealand.

2023 was an exciting year for Ruakura with an impressive number of businesses opening new facilities or announcing projects in the Ruakura Superhub.

Ribbon cutting began in March 2023 when express freight company PBT opened a 2800m2 distribution facility. Also in March, the new Waitomo service centre opened, immediately adjacent to the expressway. This site also includes fast food outlets McDonalds, KFC, St Pierre's Sushi and Robert Harris Café.

In August 2023, the $60 million Ruakura Inland Port opened. It is a joint venture between Waikato-Tainui and Port of Tauranga. Modelling suggests that the new port could help reduce costs for businesses using the rail port by 30%. Studies have also estimated that when Ruakura Superhub is fully developed, rail operations will replace 65,000 long-haul truck journeys per year, reducing carbon emissions.

This was followed by the opening of the largest building to-date in September. Kmart's 40,000sqm distribution centre is now operating and employs approximately 100 staff. Kmart relocated its Auckland operations to the larger new premises in the Superhub enabling a more reliable flow of goods to their North Island stores.

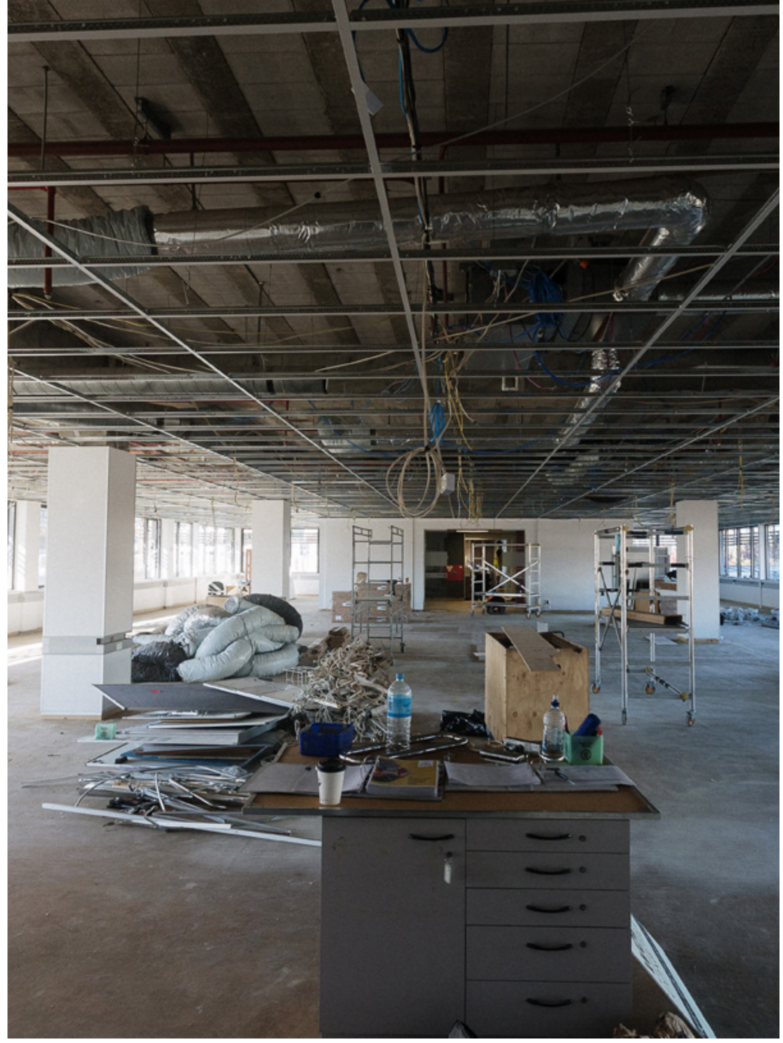
In November 2023, global logistics and shipping giant Maersk began integrated cold chain operations in a new 18,000sqm facility. Up to 50 staff are being hired to manage import and export operations for key clients including Fonterra, BluePrint Global/NZ Grass-Fed Butter, Mega Foods and Service Foods.

Construction was also underway on the Big Chill distribution centre. The 32,000m2 facility was completed in early 2024. Announcements of new tenants in the Superhub have continued in 2024 with Refrigafreighters and Sime Darby Motors signing on.

Buildings in the Superhub are extremely efficient compared to traditional industrial development. New facilities score four and five stars in the Green Star rating system. A rating of four, five or six reflects an increasing level of savings across four areas – greenhouse gas emissions, energy use, water consumption, and construction and demolition waste.

COMMERCIAL AND INDUSTRIAL DEVELOPMENT

Alterations and additions



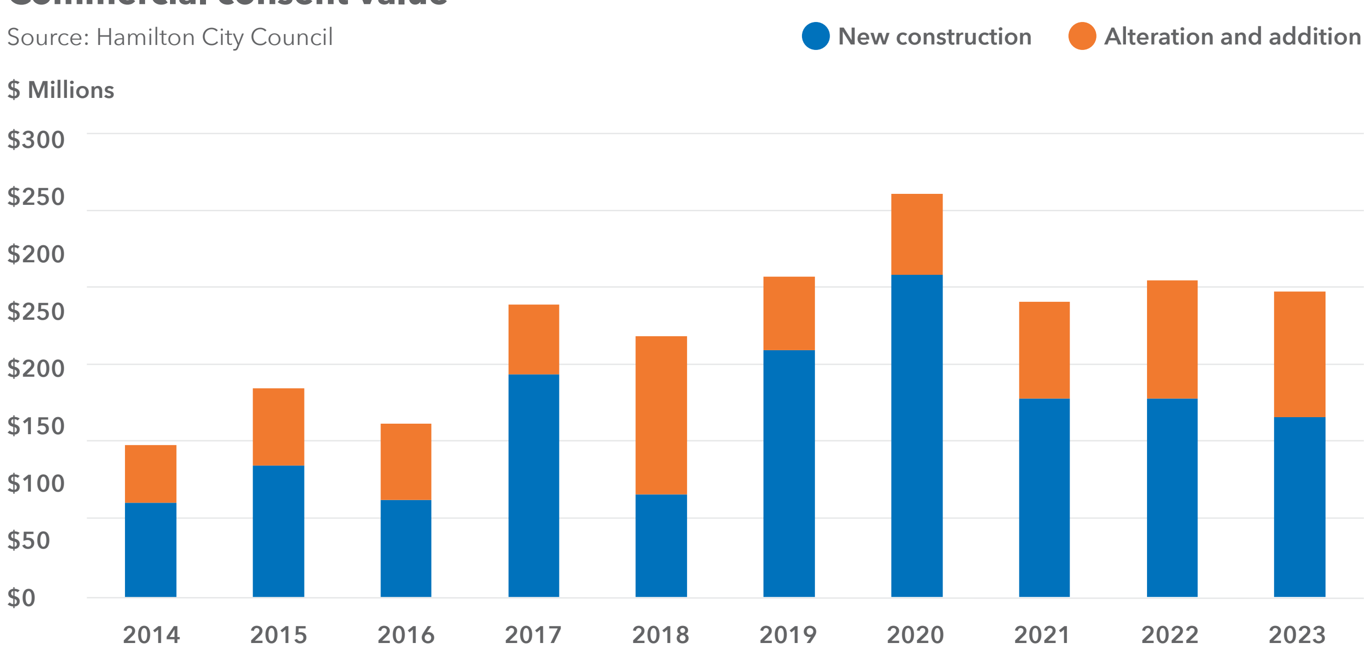
The value of alterations and additions to existing buildings increased 12% in 2023 to a total of $110 million. Alterations and additions are common when land and/or the cost to build is expensive, or when economic uncertainty makes businesses reluctant to invest in new builds - all of which were relevant considerations in 2023.

Since 2019, spending on alterations and additions has increased steadily. Consent values are now 101% higher than in 2019 which compares to capital cost inflation of 39% for residential buildings over the same period.

Alterations and additions in the commercial sector were valued at $82 million in 2023, an increase of 7% from 2022 and nearly $20 million higher than the average for the past five years. This increase contrasts with new construction which fell 10% in 2023 and is more than $30 million below the five-year average. In Hamilton many lower grade office buildings have been or are being upgraded to meet demand for high quality office space. This is reflected in the $18 million spent on commercial alterations and additions in the central city.

Commercial consent value

Source: Hamilton City Council

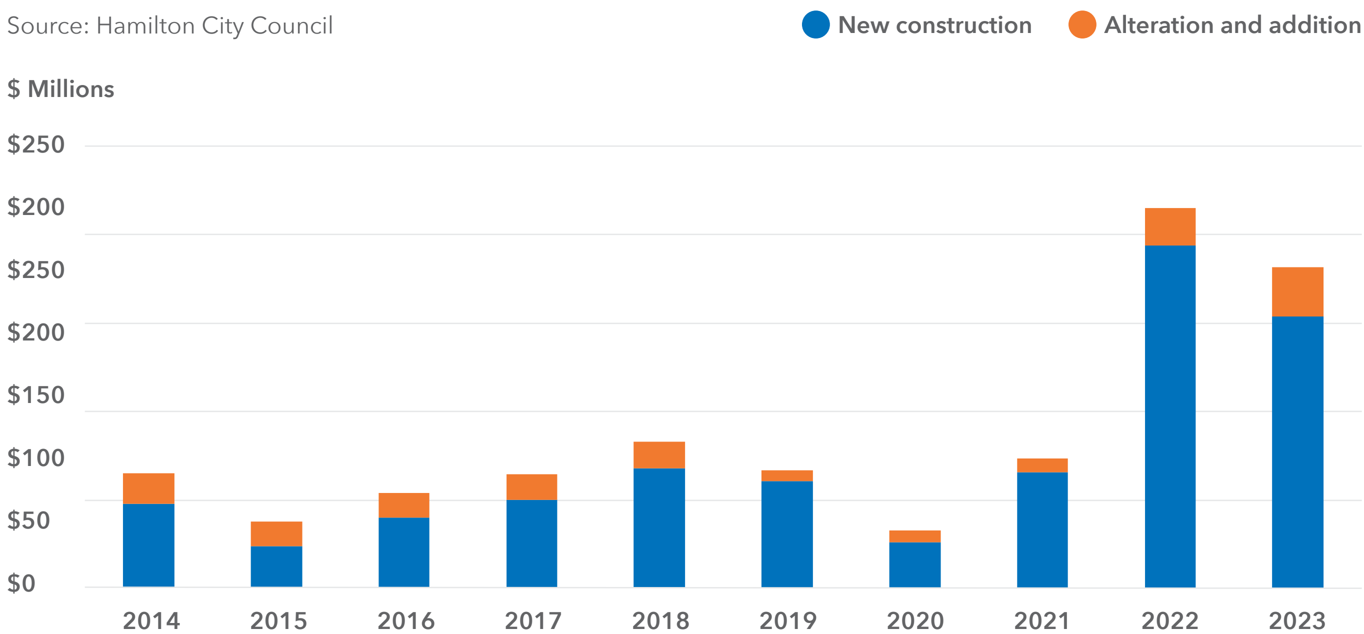


Industrial alterations and additions were valued $28 million in 2023, an increase of 31% from 2022. High building and demolition costs are driving some businesses to renovate and modify existing dwellings. On average over the past five years, about $14 million of industrial alterations and additions have taken place each year – half of what was undertaken in 2023.

Over $30 million was spent on alterations and additions in Te Rapa in 2023, of which $19 million (61%) was industrial.

Industrial consent value

Source: Hamilton City Council



COMMERCIAL AND INDUSTRIAL DEVELOPMENT

Industrial land in the city

Hamilton has four major industrial areas – Frankton, Te Rapa, Rotokauri and Ruakura. Ruakura is our newest industrial growth cell with earthworks beginning in 2017 and the first buildings opening in 2023.

Frankton is Hamilton's historical industrial hub, located near the railway line. Over the past five years, Frankton has recently seen more commercial development than industrial development - a shift from the past. Compared to newer growth cells, there is less land available in Frankton, and most new development there is smaller in nature.

Te Rapa is Hamilton's main brownfield (already developed) industrial area and is adjacent to the Rotokauri greenfield industrial area. Nearly half of all non-residential development over the past ten years has occurred in the Te Rapa and Rotokauri areas.

When looking at the use and availability of industrial land, it is useful to look wider than the city boundary to understand the picture, areas like Hamilton Airport and Horotiu. The 100-hectare Northgate Business Park in Horotiu, just 8km north of the central city, is in its final stage (stage 3) of construction. Hamilton Airport's Titanium Park is another major industrial area which is looking at future expansion opportunities.

The Industrial Vacancy Survey undertaken by CRBE and NAI Harcourts, which does not include Ruakura, showed that Hamilton had a total of 2.1 million m2 of industrial space in 2023, including nearly 58,000m2 of new supply. The survey monitors industrial buildings in Te Rapa (which includes the Rotokauri growth cell in this report), Frankton and Hamilton Airport. Ruakura, which has had over 100,000m2 of new space consented over the last three years, will be included in future surveys.

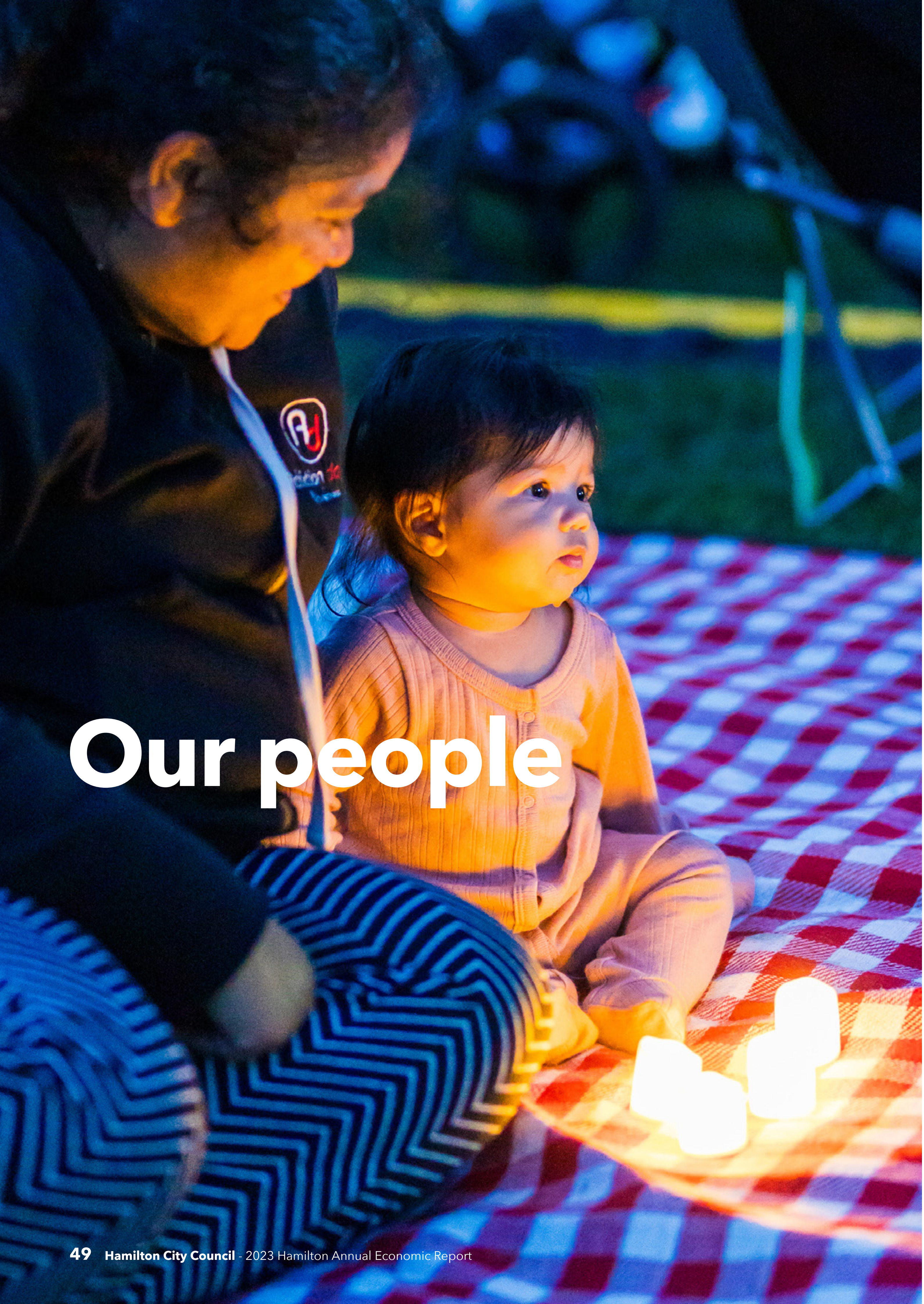
The overall industrial vacancy rate was 1.6%, up slightly from 2022 (1.2%). This is driven largely by an increase in the number of buildings. There is about 35,000m2 of vacant space - less than the size of the new Kmart distribution centre. Over half of the vacant stock is in Frankton, which has more low grade buildings, smaller sites and some areas that require redevelopment. Demand was highest for high grade buildings which is reflected in the significantly lower vacancy rates (<1% for Grade A compared to 4% for Grade C).

Hamilton City Council is required to undertake an assessment of housing and business land (HBA) to ensure there is sufficient land to meet demand. We then use this information to plan for development and decide on the infrastructure needed to enable growth. Our growth planning ensures that we have a plentiful supply of committed greenfield growth. It also guides our principles for out-of-boundary growth. These set out expectations for developers, landowners, and other key partners to ensure new development areas contribute positively to achieving the city's vision.

We are constantly monitoring the development and the speed of which development of industrial land is happening to inform these assessments and project future demand. The projections below align with Hamilton's latest HBA. The HBA shows strong short-term, demand is expected in Te Rapa and Rotokauri, with an additional 54 hectares needed in the short-term and 173 hectares needed in the medium term. Demand in Ruakura is also expected to grow.

Demand for industrial land in Hamilton

Area	Demand (in hectares)			Total development ready vacant land
	Short term	Medium term	Long term	
Te Rapa and Rotokauri	34	108	208	219
Frankton	8	28	79	6
Ruakura	2	4	13	263
Other	8	26	73	0
CBD	2	8	23	0
Total	**54**	**173**	**396**	**488**



Our people

OUR PEOPLE

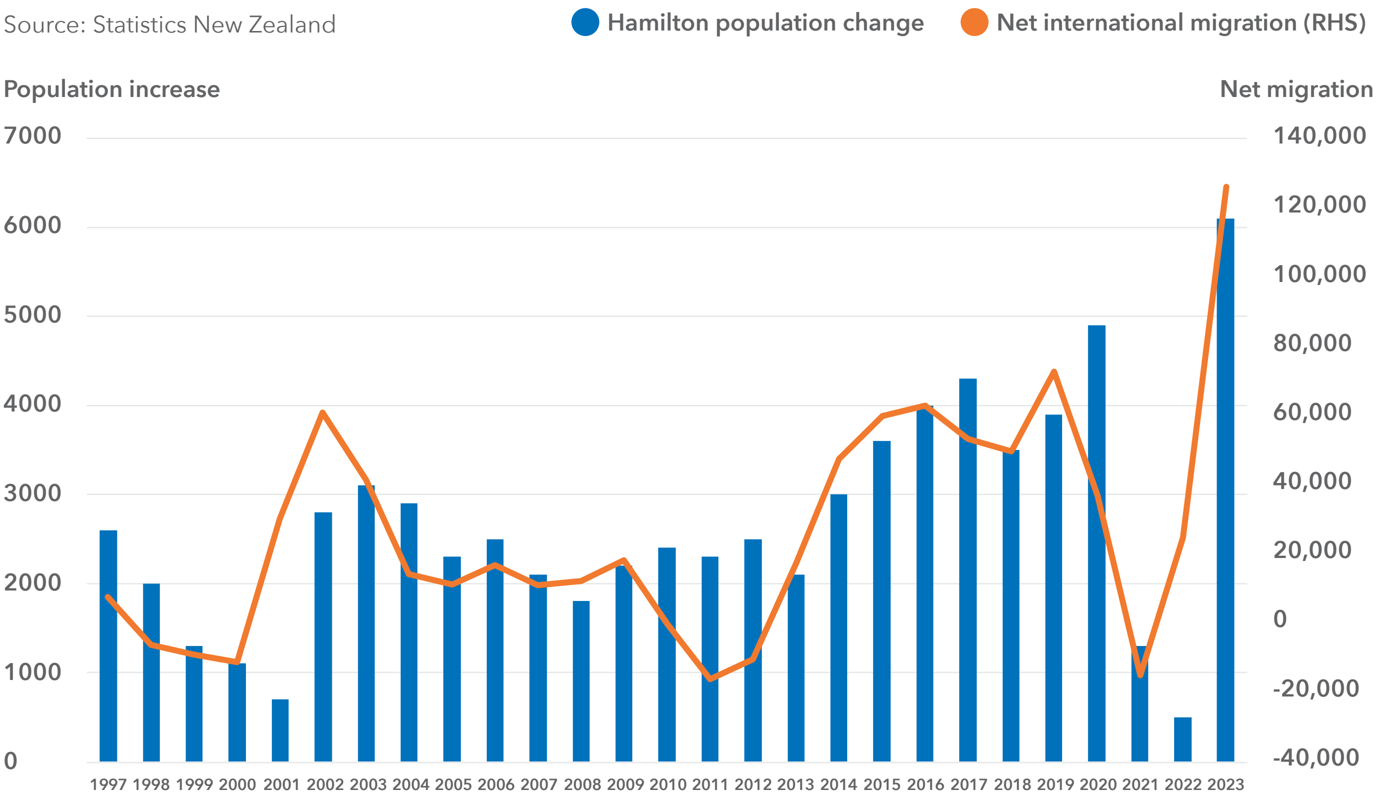
Population

Hamilton is one of the fastest growing cities in the country. In 2023, our population grew by 6100 (3.4%) to reach 185,300 people, which was the highest percentage increase in population growth of any of the main cities (as well as most territorial authorities). Hamilton also had the second highest total increase in population after Auckland.

Population growth in 2023 was driven by international migration with a net gain of 4900 new migrants moving to Hamilton. New Zealand's net migration hit a record high of 134,000 in the 12 months to October 2023, falling slightly to 126,000 by the end of the year. Across 2023, 255,000 new migrants arrived into New Zealand while 129,000 people departed with the intention of being away for the long-term. Both arrivals and departures were at record levels.

International migration and Hamilton's population growth

Source: Statistics New Zealand

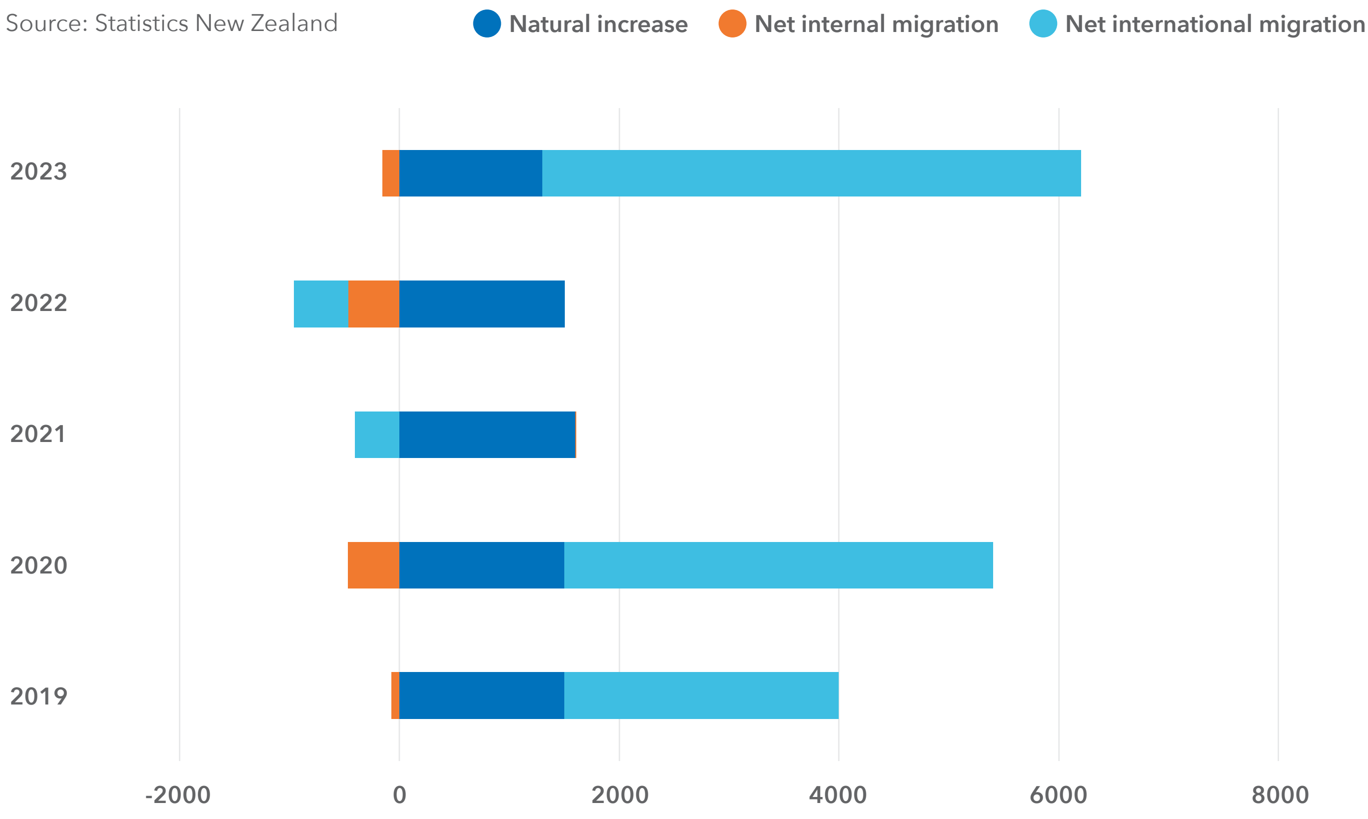


Net internal migration (people moving between Hamilton and another part of New Zealand) was estimated to be negative 150, meaning that 150 more people left Hamilton for somewhere else in New Zealand than moved here. This is typical for Hamilton. Our own research on internal migration into and out of Hamilton shows that the biggest outflow is to Waikato and Waipaa districts while Auckland is our largest contributor. Further research is underway to understand local drivers of internal migration and whether those moving to Waikato or Waipaa are continuing to work in Hamilton.

Hamilton's population growth from natural increase (the number of births minus the number of deaths) was 1300 in 2023. This is the highest level of natural increase outside of Auckland despite falling from 1500 in 2022. The fall was primarily driven by an increase in deaths and a small decrease in the number of births. Nearly a quarter of all territorial authorities saw more deaths than births in 2023, with this expected to increase as the population ages.

Components of population change in Hamilton, as at 30 June 2022

Source: Statistics New Zealand



Age structure

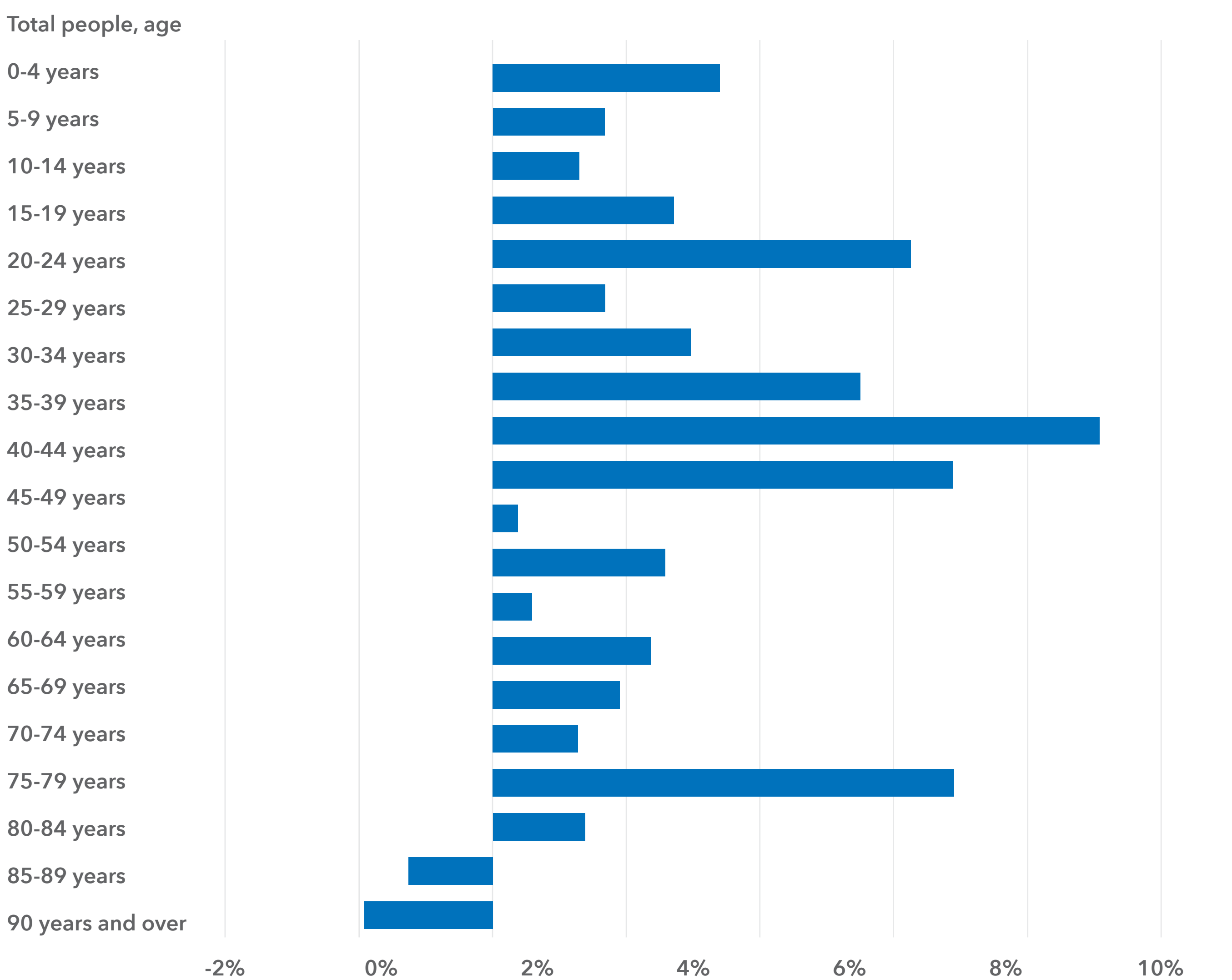
Hamilton remains New Zealand's youngest city with a median age of 33 years. This compares to 38 years for New Zealand, 34 years in Wellington, 36 years in Auckland, 37 years in Christchurch and 38 years in Tauranga.

Amongst Hamilton's suburbs, the median age varies from a low of 23 years in Ruakura to a high of 43 years in Huntington. Ruakura, Greensboro, Hillcrest and Hamilton East are popular with students, and consistently the youngest areas in the city.

In 2022, Hamilton, along with other areas in New Zealand, experienced a brain drain as borders reopened and people embarked on overseas adventures. However, in 2023, with international migration reaching record levels, Hamilton moved from a brain drain to a brain gain.

Population change by age, 2022 to 2023

Source: Statistics New Zealand



Over the past decade, Hamilton's population has grown by 23% or 35,000 people, but the spread over different age groups has varied considerably. The 30-39 years age group has increased by 81% (13,800 people) since 2013, compared to 29% across New Zealand. This likely reflects Hamilton's increased employment opportunities and range of lifestyle options, a combination attractive to mid-career professionals.

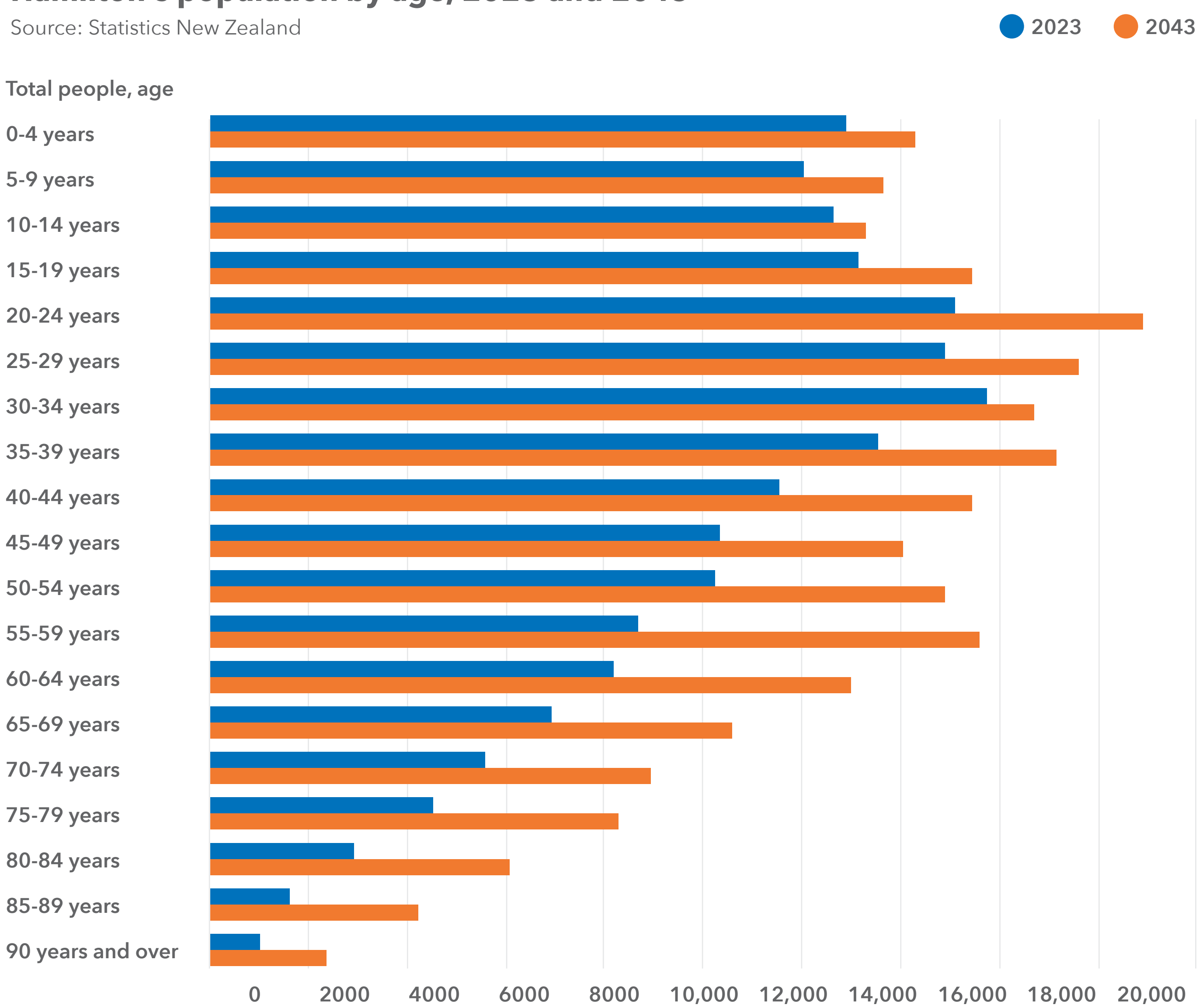
Like all New Zealand, our population has aged. In the last decade, the number of people over 70 years old has doubled. As a subset of our population, over 70s have gone from 7.6% of all Hamilton residents in 2013 to 8.4% in 2023. In comparison, New Zealand's over 70 population has increased from 9.5% to 11.5% of the total population over the same period.

Interestingly, our 20-24 years age group increased just 2% since 2013, half the rate seen across New Zealand as a whole. The highest increase between 2022 and 2023 was seen in the 30-34 years and 35-39 years populations which increased 57% and 50% respectively.

Our population will look very different in the future. Despite having one of the youngest populations in the country, Hamilton's population is aging, and we will have proportionately more older people in the future. Unlike other parts of the country, Hamilton's youth population is still expected to grow over the next 20 years, but it will become a much smaller proportion of our total population.

Hamilton's population by age, 2023 and 2043

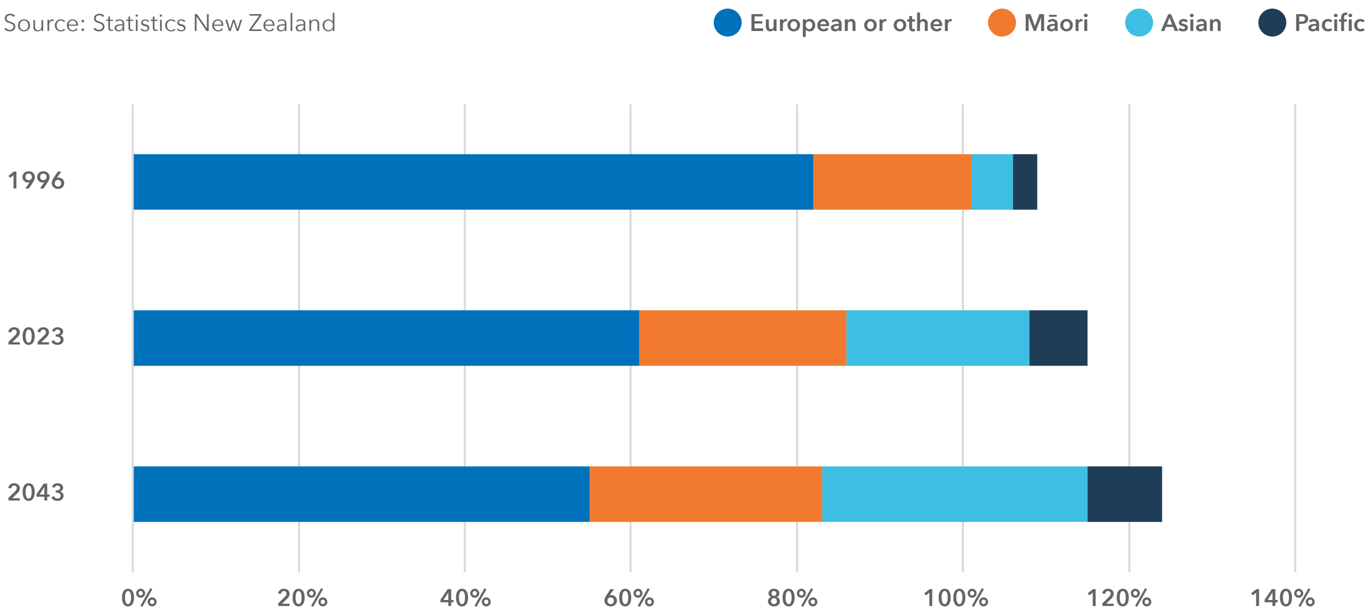
Source: Statistics New Zealand



Our population, in line with the general population, will become more diverse over time, with a higher proportion of Maaori and Asian people. In 2023, it was estimated that 25% of Hamilton's population identified as Maaori and another 22% as Asian. By 2043, Maaori could make up 28% of our population and Asian could make up 32%. In 1996, 82% of our population identified as European. This had declined to 61% in 2023 and is expected to further decline to 55% by 2043. By 2043, Hamilton could be one of the most ethnically diverse areas in the country. More people are also expected to identify as multiple ethnicities. As people identify as more than one ethnicity, the percentages do not add to 100%.

Ethnic diversity in Hamilton

Source: Statistics New Zealand



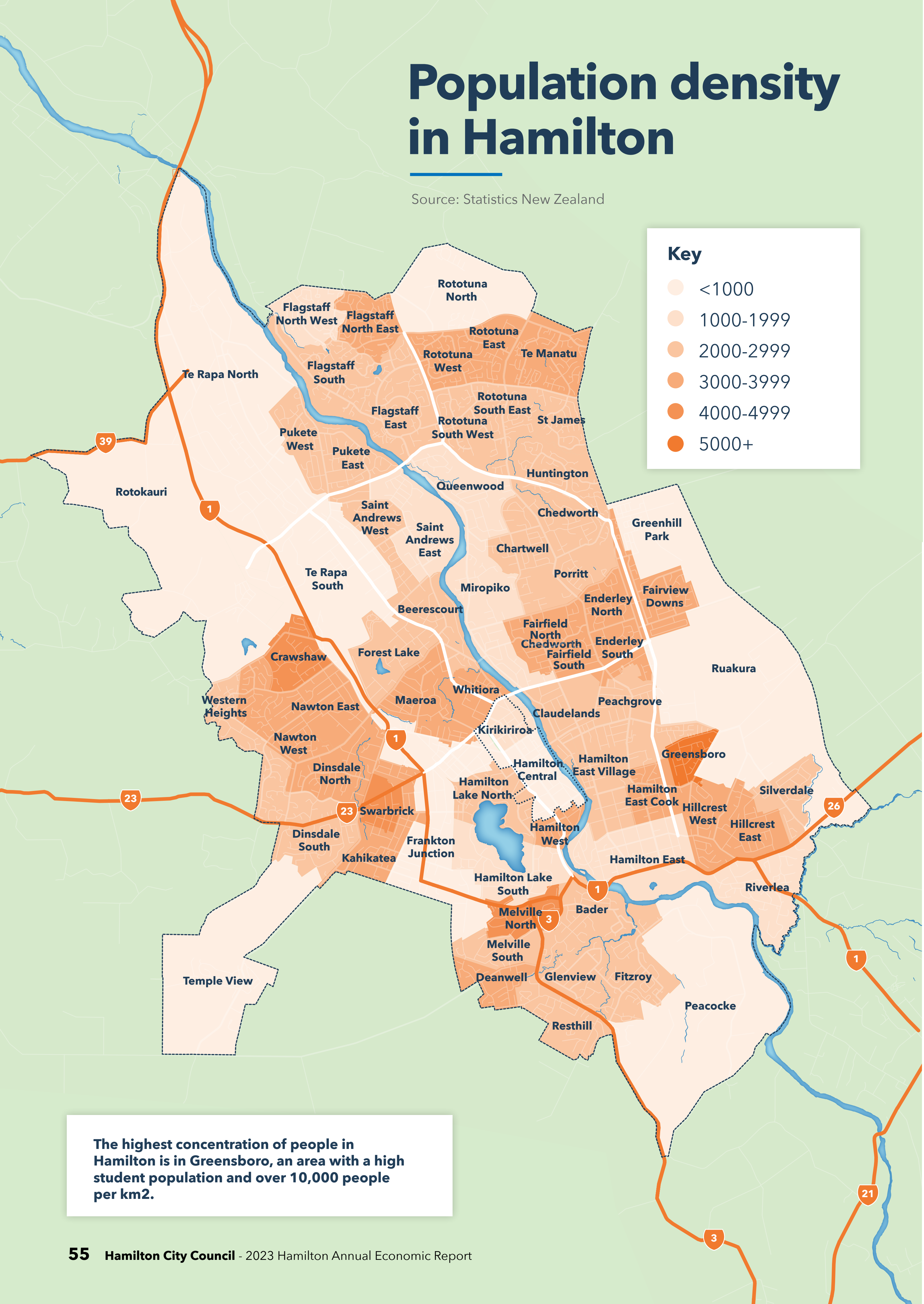
New Zealand's reliance on migration for population and economic growth could be tested in the future. Most developed countries are expected to see natural population decline (births minus deaths) in the future. Our reliance on Asia for migrant workers will be challenged as international competition increases and local populations decline.

China is already experiencing population decline, with the population expected to halve over the next 70 years. Japan's population decreased 443,000 last year alone. These countries will work to retain their highly skilled workforce and limit those emigrating, in order to mitigate potentially significant economic and social impacts on future generations. For Hamilton, as a high growth city that has benefited from migration, attracting and retaining talent, and innovation will be key to ongoing economic growth.

Over the long-term, we expect Hamilton to grow by an average of 2800 people per year. By 2043, we expect the city to be home to over 240,000 people and provide jobs, education and services to an even greater population.

Population density in Hamilton

Source: Statistics New Zealand



The highest concentration of people in Hamilton is in Greensboro, an area with a high student population and over 10,000 people per km2.

Our central city

Our central city is home to 15% of Hamilton's businesses and 20% of jobs. It is currently home to 1% of Hamilton's population, but this is growing as more new housing options become available.

In 2023, the population of our central city increased 4% to 1880 people. The central city is home to people of all ages but over a third are aged between 20 and 34 years, compared to 26% across Hamilton. There are significantly fewer children living in the central city (13%) compared to the rest of the city (21%), but that number has been growing. In 2023 the number of children in the central city increased by 14%, following an 11% increase in 2022 and 12% increase in 2021.

OUR CENTRAL CITY

Doing business

Our central city supports 21,800 jobs and 2630 businesses that generated $3.5 billion in GDP in 2023. Over the year, the central city's GDP increased 5%, jobs increased 6% and business numbers increased 8% - all comfortably higher than Hamilton as a whole and New Zealand.

Professional and scientific services continued to contribute the most to GDP in the central city, generating $564 million in 2023 (16%) and providing over 4650 jobs.

Most financial and insurance service sector jobs (69%) are located in the central city, as well as half of the rental and real estate services sector jobs, 46% of utilities jobs and 45% of public sector jobs. Retail trade generated $162 million in GDP and provided 2200 jobs.

The new ACC building opened on Tristram Street in April 2023 and has space for 800 staff that were previously spread across multiple sites in Hamilton. Although very much a part of our central city, the new building sits just outside the statistical boundary, so the data shows a decline of 553 public administration and safety jobs in the central city for 2023.

OUR CENTRAL CITY

Card spending

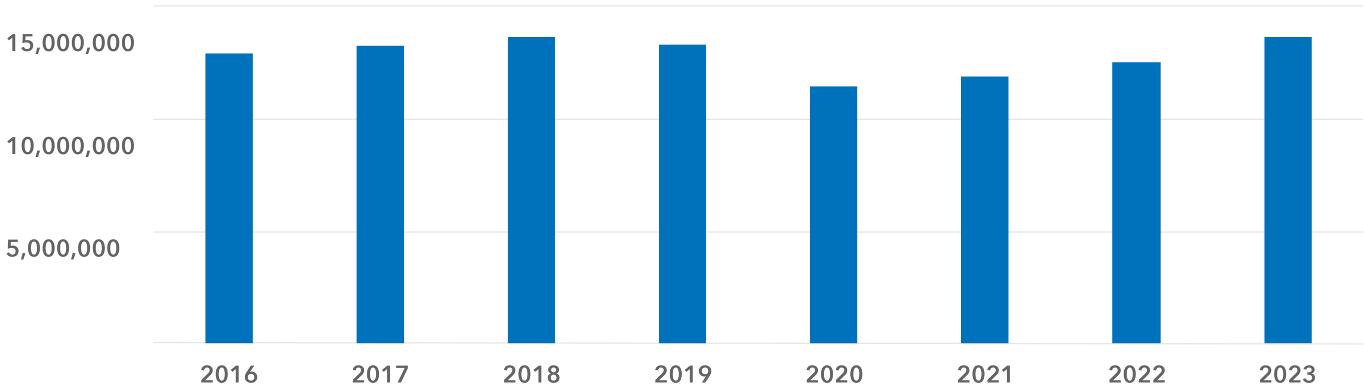
In 2023 there were 450 retail businesses in the central city, down 3% from 2022. A total of $788 million was spent across these central city businesses in 2023, up 11% on the year before. Retail spending citywide increased 4% in 2023, while spending at Chartwell shopping centre increased 10% and spending at The Base remained static.

Spending in the central city remained surprisingly strong throughout 2023, even when the effect of inflation was removed. However, while the December 2023 quarter was up 5% year-on-year, this increase was much smaller than in the first three quarters of the year.

Transaction numbers were also stronger in the central city, increasing 9% year-on-year compared to 5% at Chartwell and 0.5% at The Base. The central city saw more than 13 million transactions made in 2023 - the first time central city transactions exceeded this figure since the pandemic began.

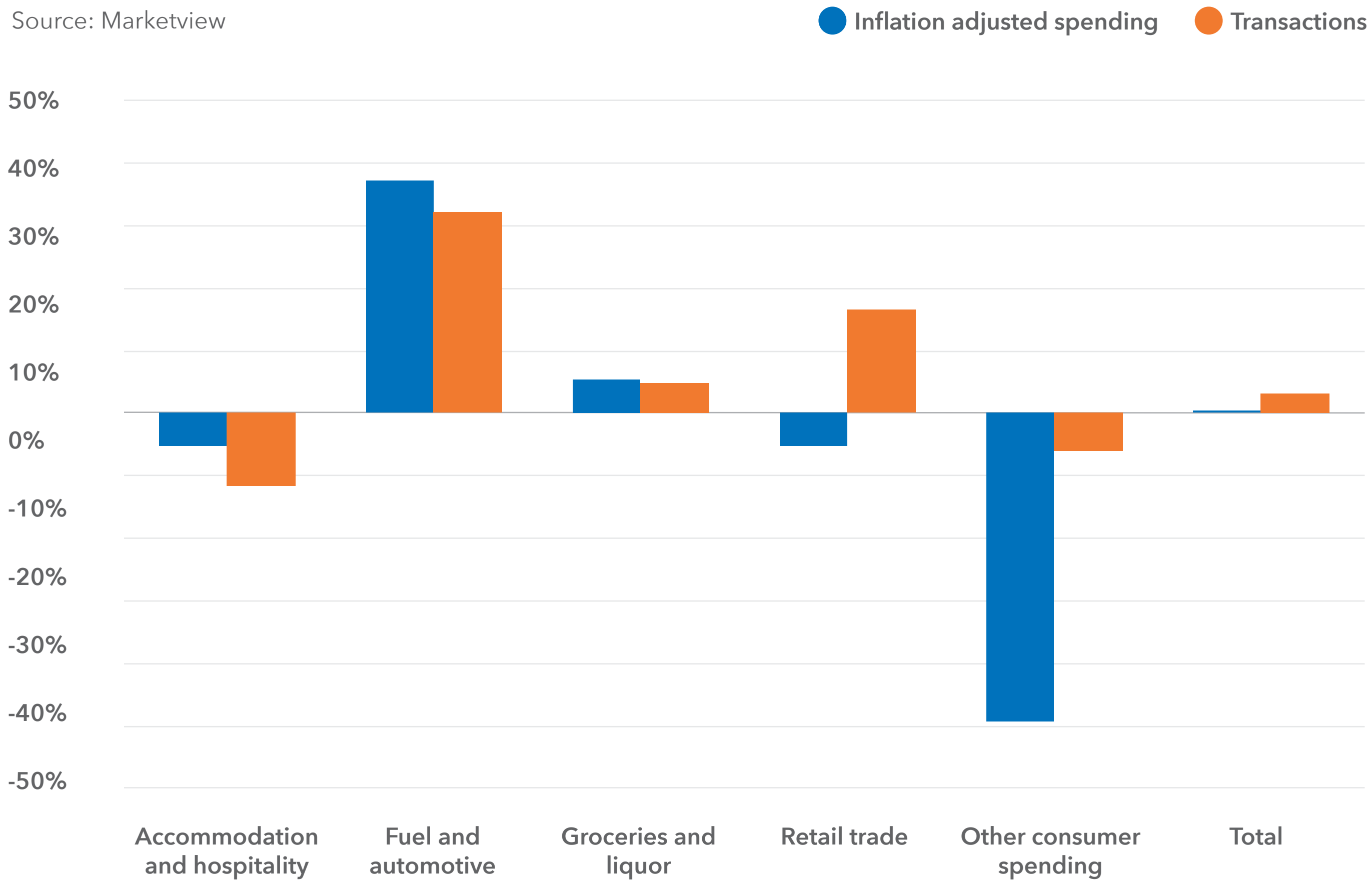
Number of transactions made in the central city

Source: Marketview



Change in spending patterns, 2019-2023

Source: Marketview



While spending in 2023 was stronger than in 2021 and 2022, when adjusted for inflation, it is not as strong compared to pre-pandemic levels. There was no change in overall spending in the central city and only two categories show real spending as being higher than before the pandemic – groceries and liquor; and fuel and automotive spending which was largely driven by significant fuel increases. Retail trade data shows transactions have increased but inflation adjusted spending has decreased, suggesting people are spending less but spending more often.

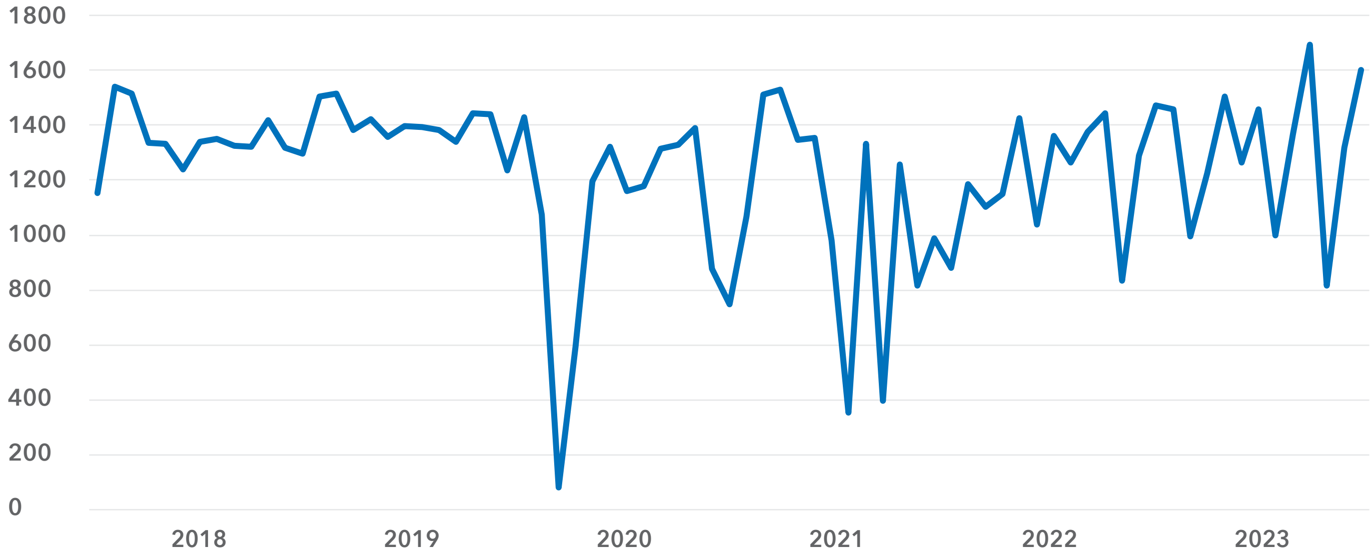
Pedestrian counts

Pedestrian counts are a good indicator of economic activity in the central city, as there is a strong relationship between how many pedestrians there are and how many transactions are made. More people in town generally results in more money being spent as people buy lunch or pop into a store on the way past.

Since 2020, more people have been working from home one or more days a week. This means there are generally fewer people in the central city than before the pandemic. In 2023, pedestrian counts were generally higher than 2022, but remained lower than 2019 for eight months of the year. Pedestrian counts have also been far more volatile month to month since 2020.

Median daily pedestrian count in the central city

Source: Hamilton City Council



OUR CENTRAL CITY

New developments

The central city had several exciting developments underway and completed in 2023.

The new ACC building – Amohia Ake – opened in April 2023. The building was developed by Tainui Group Holdings and will house up to 800 staff from two different Hamilton offices. Ownership of the underlying whenua, which is a former maara kai or vegetable garden in pre-colonial days is retained by Waikato-Tainui, with ACC taking a long-term lease of the new offices.

The Waikato Regional Theatre started to take shape with the foundations set and the first stages of installation of the floor, building envelope and structure well underway. Construction is expected to finish in 2025 and will be followed by the theatre fit out. The completion of the Waikato Regional Theatre will represent a significant opportunity to realise transformational outcomes in the central city. Work onsite continues to progress well, with all foundation and earthworks complete. Most recently, concrete pours have begun across levels 1 and 2 of the heritage building. Council is currently planning the work to rejuvenate the surrounding areas of the theatre precinct including the adjacent park.

The third building in Union Square, Building E, was completed in October 2023. It is the second office tower in Union Square, taking the total office space to over 9000m2, all of which is fully leased and caters for 550 workers. The new building has a business centre shared by all tenants that includes meeting rooms and conference rooms.

The next development for Union Square will be Building B, which will wrap around the carpark which opened in April 2023. Once completed, Union Square will have 23,000m2 of office space as well as retail and community spaces. More than 2500 staff are expected to be employed across the Union Square developments once complete.

Vacancy rates

The central city had over 80,000m2 of retail space in 2023 according to the NAI Harcourts Hamilton CBD retail market overview. Vacancies increased from 7.9% in June 2023 to 8.9% by December, both are higher than the 6% vacancy rate at the end of 2022. In 2023, the total amount of vacant retail space was 7150m2, with another 3730m2 being refurbished. Prime-grade retail space available for lease – retail premises on a street with good pedestrian traffic and near the central core – increased significantly in 2023 following the move of JB Hi-Fi from Barton Street to The Base. Secondary and tertiary space both saw a decrease in vacancies.

At the end of 2023, there was an overall office vacancy rate of 9.5% in the central city. There was nearly 4900m2 of new Grade A office stock in the central city following the opening on Building E at Union Square and one other building. There was also 13,100m2 of office space under refurbishment. The vacancy rates differed by building grade. Higher-grade, better-quality office spaces had a vacancy rate of 1.4% while 19.5% of Grade E space was vacant. Companies are reportedly looking for high quality spaces to entice their employees back to the office.

CENTRAL CITY

Development Activity

May 2024

1	**163 River Road** Residential 30 apartments
2	**81 Victoria Street** Mixed use residential / commercial
3	**Rawhiti Village Stage 2** Mixed use 34 apartments
4	**31 Opoia Road** Residential 23 apartments
5	**139 Clarence Street** Residential 9 apartments
6	**One Cook Street** Mixed use 9 apartments
7	**Union Square** Commercial / retail 24,000 GFA
8	**Waikato Regional Theatre** Community facility
9	**Waikato Regional Theatre** Commercial / retail 2200 GFA
10	**Northern Green** Mixed use 27 apartments / 1659 GFA
11	**Hills Village** Mixed use 42 apartments
12	**Tuapapa** Mixed use residential / commercial
13	**Ward Street Hotel** Residential 70 apartments
14	**High Street** Mixed use 98 apartments
15	**1 Puutikitiki Street** Residential 23 apartments
16	**Project Pooka** Mixed use offices / retail
17	**Wellington Street** Residential 21 homes
18	**Nixon Street** Residential 16 homes
19	**Te Hiringa** Residential 10 homes
20	**Lake Road** Residential 13 homes
21	**Hinemoa Apartments** Residential / 42 homes
22	**Beale Street** Residential / 6 apartments
23	**26 Hammond Street** Residential / 11 homes
24	**NZ Blood Development** Commercial / retail
25	**K'aute Pasifika Pan Pacific Community Hub** Community Facility
26	**Made of Hamilton East** Mixed use retail / commercial
27	**189 Collingwood Street** Commercial / retail 1000 GFA
28	**Amohia Ake** Commercial 8,500 GFA
29	**Rawhiti Village Stage 1** Mixed use 10 apartments
30	**Tisdall Street** Residential 7 homes
31	**126-132 Firth Street** Residential / 14 homes
●	**Commercial refurbishments**

Central city area
Area within 800m from the central city
Consenting process
In construction
Complete
Commercial refurbishments

Our metro economy

Hamilton is 110km2, making it one of the smallest territorial authorities in the country. Our surrounding sub-region is closely linked to Hamilton and plays an important role in our economy and our growth. Council is part of Future Proof, partnering with Waipaa, Waikato District and more recently, Matamata-Piako, exploring how the sub-region could develop and provide for economic growth.

Hamilton sits in the middle of the subregion and is the commercial and economic centre of the Metro-Spatial Plan (MSP) area which spans from Taupiri in the north to Kihikihi and Cambridge in the south. The MSP creates a framework to respond to growth challenges, address environmental deterioration, demand on infrastructure and rising housing costs over the long-term.

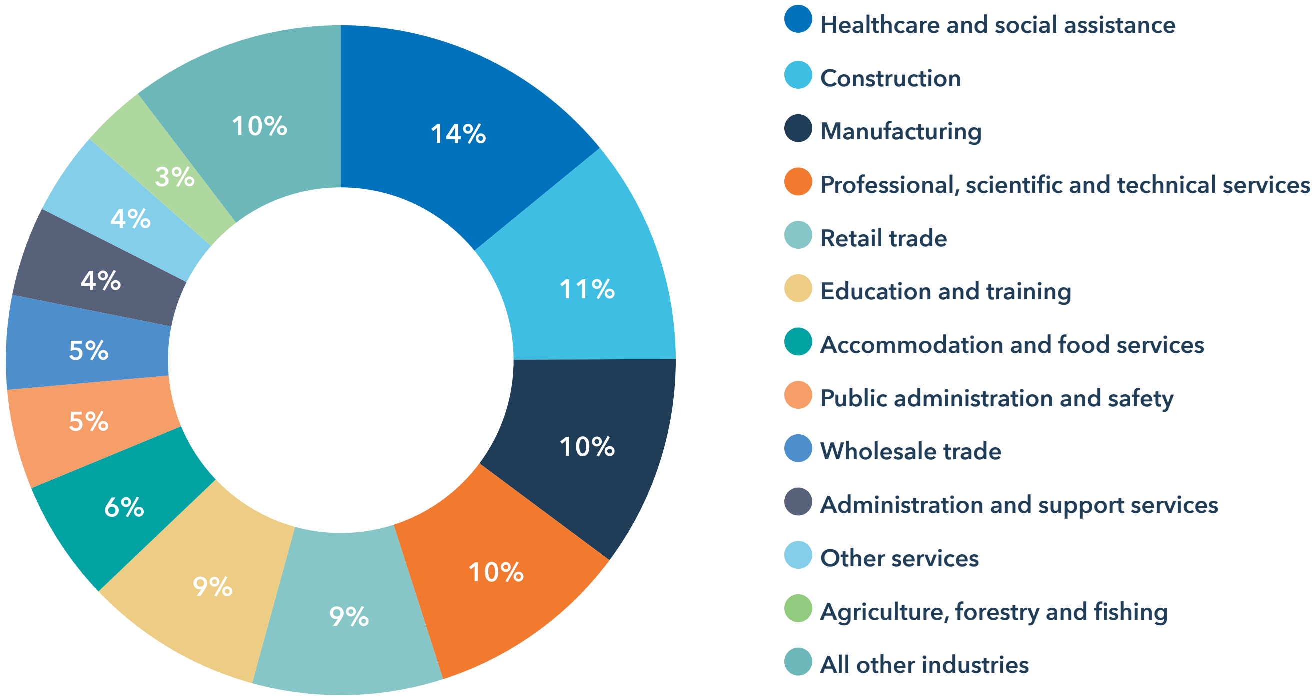
From a GDP perspective, the largest sectors in the MSP area in 2023 were manufacturing and professional, scientific services and healthcare, each contributing 9% of the area's GDP. Healthcare saw the largest growth, increasing by $130 million to $1.7 billion in 2023, a growth rate of 8.3%. The largest fall was seen in the public administration and safety area which fell $23 million to $756 million in 2023.

In 2023, employment growth in the MSP area was 3% - higher than New Zealand (2.4%) and the wider Waikato (2.3%). Likewise, growth in the number of businesses, GDP and population was higher in the MSP area. Healthcare was the largest employer in the area, providing 14% of jobs (19,960); followed by construction (11%) and manufacturing (10%). While the Waikato is well known for its agricultural sector, just 3% of jobs were in agriculture and forestry, with 1.2% of roles supporting the agriculture, forestry and fishing sector, and less than 1% in dairy farming. This compares to 9% of jobs across Waikato being in the agriculture and forestry area.

Just over 50% of Waikato's population live in the MSP area. The population of the MSP area increased by 7400 people in 2023, up 2.9% on 2022. The MSP area, like Hamilton, is home to a larger proportion of those under the age of 45 years compared to the rest of New Zealand and Waikato. Our research into internal migration in and out of Hamilton shows that about 25% of people moving to Hamilton come from Waipaa and Waikato districts, and 27% of those leaving Hamilton move to Waipaa and Waikato districts – people are moving within the metro area and maintaining a connection with Hamilton.

Jobs by sector in the metrospatial area

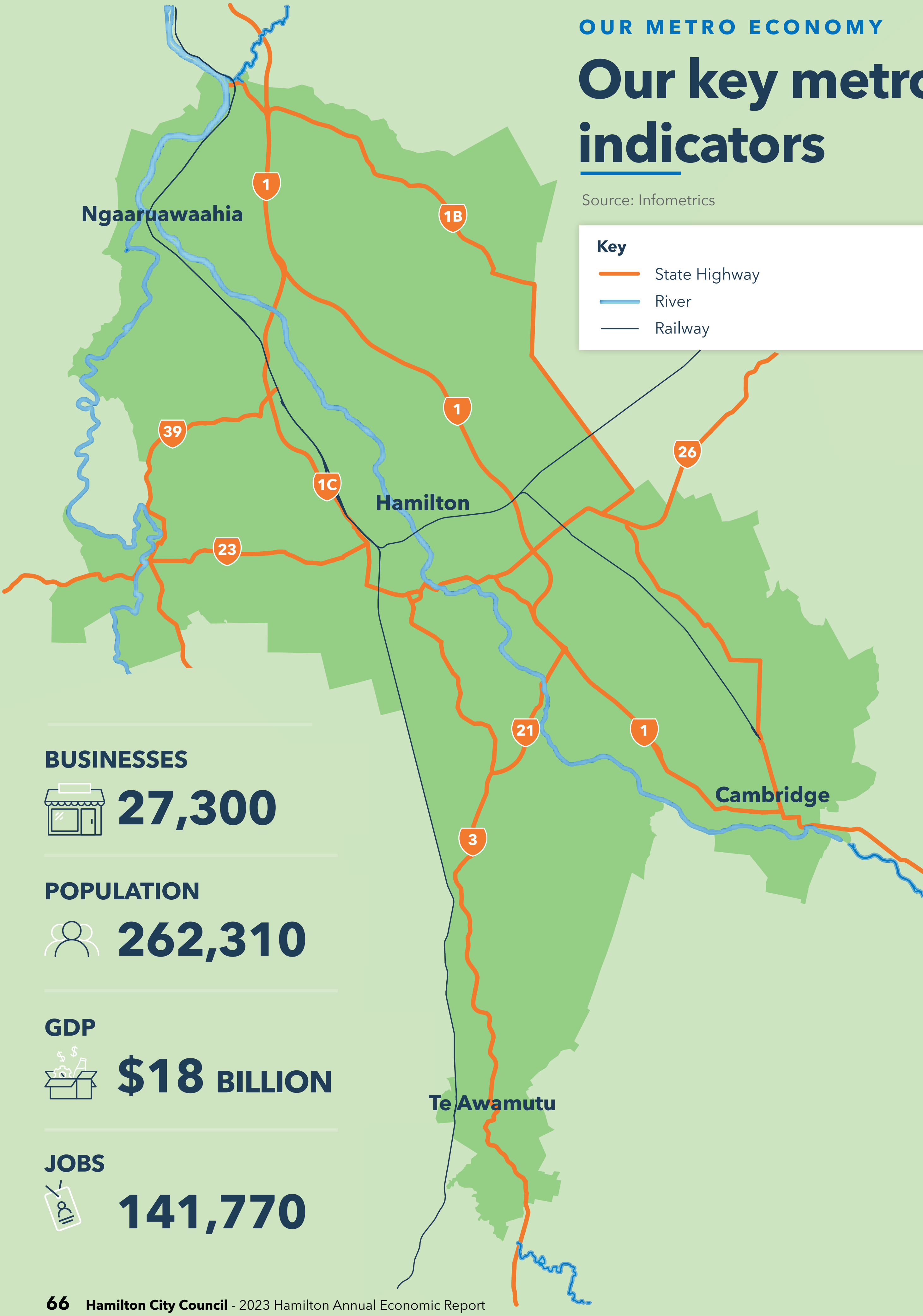
Source: Infometrics



OUR METRO ECONOMY

Our key metro indicators

Source: Infometrics



BUSINESSES

27,300

POPULATION

262,310

GDP

$18 BILLION

JOBS

141,770

Our outlook

Hamilton's economy continues to show remarkable resilience through times of economic uncertainty. However, New Zealand is now in a recession and global growth has slowed significantly, we are now navigating the economic doldrums. The outlook for 2024 is for lower global economic growth and demand, and little if any growth in New Zealand's economy. Hamilton is not immune to these external drivers and the next year will be tough for businesses and households. Hamilton will continue to punch above its weight, supported by our balanced economy and strategic positioning in the upper-North Island, in close proximity to more than 2.5 million people.

Economic growth will be dormant

Forecasts for national GDP growth for 2024 differ but broadly speaking, no one is expecting much economic growth over the coming year. Some forecasters expect growth to dip in and out of negative territory throughout the first half of 2024, before improving slowly in the latter half of the year.

Household and private consumption is expected to fall, as is government consumption - meaning the domestic market is not providing any opportunities for growth at a macro level. Internationally, global demand for our export goods is likely to be soft, although forecasts for export services which includes tourism, are suggest an improvement.

Naturally, different sectors will experience the slowdown in different ways. Construction and manufacturing will continue to be hardest hit, and retail trade will also have a tough year ahead. The healthcare and education sectors typically don't see decreases during an economic downturn. Heathcare needs remain consistent regardless of the economy, and the demand for education tends increase when there are fewer jobs available, as people look to retrain.

Consumer confidence is low and there is a flow-on effect for spending

Households are concerned about the future. Job security is perceived as low due to the high profile and extent of public sector cuts. Households are also facing increased costs in 2024, with increased rates and insurance bills coming. Households will be looking to cut discretionary spending, pay off debt and shore up savings over the coming year.

We expect job growth to pull back in 2024, in line with softened demand for goods and services. As the economy gets moving again in 2025, we would expect growth to pick up and outpace New Zealand again. It is common for companies to restructure when faced with economic challenges. However, this is likely to be tempered somewhat by the recent challenges recruiting, so many companies will look to retain skilled staff and ride out the downturn. Our conversations with local businesses support this outlook.

The public sector is influenced by the restrictions of the current government. With over 4000 public sector job cuts proposed to date, there will inevitably be job losses for Hamilton's 5150 central government employees. Following the election of a National-led government in 2008, public sector cuts resulted in a drop of 7% in Hamilton's central government administration roles by 2011. It is reasonable to assume that our city will see government job losses this time too.

Inflation is coming down, but prices are still going up

Three years ago, we would have baulked at inflation of 4%, but in March 2024, we celebrated it. The outlook for inflation is varied across forecasters, but generally they are expecting inflation to come below 3% by the end of 2024 and return to about 2% in 2025. Unfortunately for households, prices are still going up, just not as fast. The cost-of-living will continue to increase, and it is unlikely that incomes will increase at the same rate now there are more people available to fill jobs.

Business surveys still show a large proportion of businesses intend to increase their prices in the coming year. Inflationary pressure has affected rents, as high migration pushes up demand. Inflation in the September 2024 quarter will also be impacted by the proposed rates rises around the country. Extreme weather events are continuing to push insurance prices higher. Both are costs difficult for households to avoid.

Consenting will continue to fall

All forms of consenting pulled back in 2023, although industrial consenting remained above historical averages. A further retraction across all sectors is likely over the next 12 months primarily because the economic outlook is not expected to improve much.

We have been forecasting a fall in residential consenting in 2024 for some time. Over the past six months, consenting has fallen faster than we anticipated in our 2023 outlook report which suggested a low of around 1100 new dwellings granted in the year to September 2024. With the increased likelihood of interest rates remaining where they are until August 2025, and flat house prices, we expect residential consenting to fall below our September projections and to take slightly longer to improve.

In 2023, Kāinga Ora was a significant player in Hamilton's residential construction industry. We estimate over a third of new dwellings consented in 2023 were being built by or for Kāinga Ora. Under the new government there is less certainty about the future build programme. The government has announced a target to reduce households in emergency housing by 75% by 2030, however, how funding will be allocated across regions is not clear. The government also announced funding for community housing providers to deliver 1500 new homes, but this is yet to be allocated. We do anticipate that there will continue to be a significant build programme for Hamilton given the high number of households still in emergency housing.

The OCR is unlikely to come down before the end of the year, making any movement in interest rates small, constraining house price growth. RBNZ has signalled they expect to cut the OCR from August 2025, although most banks are expecting to see cuts from November 2024. The construction sector will want to see certainty in the housing market before committing to projects in the pipeline.

Rising unemployment and job insecurity will affect the housing market

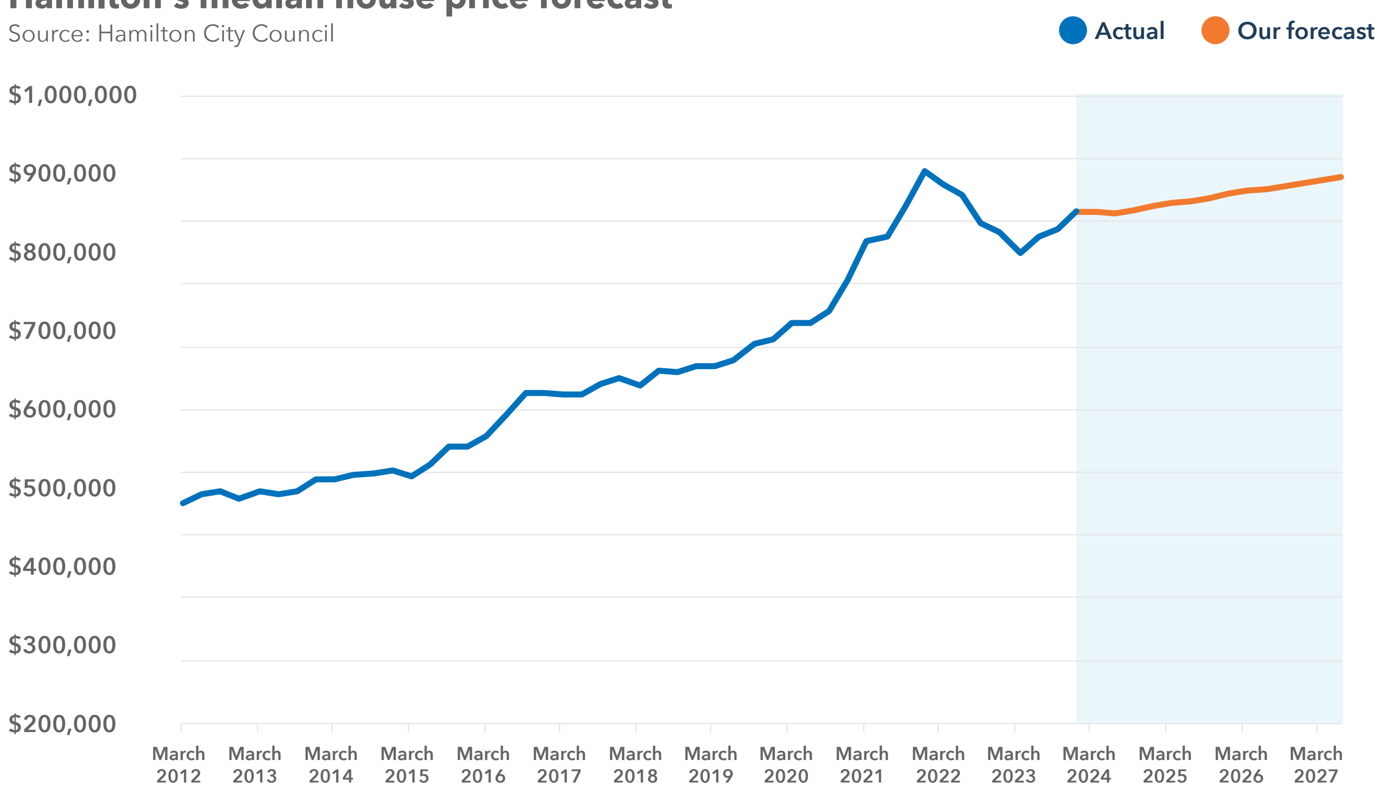
Concerns about employment security are increasing with the widespread media coverage of public sector cuts. Unemployment and the fear of unemployment will temper spending plans on housing. People will be more likely to wait until they are more confident they will be able to pay the mortgage in the future before buying property. The RBNZ will be okay with this as a cooler housing market also cools wider demand and will help the battle against inflation.

The real estate sector is already reporting fewer people looking to buy and more investors looking to sell compared to the latter half of 2023. Auction and open home attendance is reportedly back to early 2023 levels when house prices hit their lowest. However, first home buyers are also reportedly looking for opportunities in the downturn. An uptick in prices in the middle of 2023 enticed more properties onto the market, but buyer numbers have not increased at the same pace.

Based on the economic climate, our expectations are for property prices in Hamilton to remain flat over the next 12 to 18 months. This in turn will reduce the incentives for developers to build more houses because it's less economically feasible.

Hamilton's median house price forecast

Source: Hamilton City Council



Our forecast is produced by Council's Growth Funding and Analytics Unit, and is not an official Hamilton City Council forecast.

The final word

The next two years will be challenging for many. Inevitably, some businesses on the margin will close and there will be more visible signs of a downturn. But a downturn is part of the usual business cycle, and this one has been engineered by RBNZ to curb inflation. We expect Hamilton to come through this downturn with exciting new innovations and businesses, who see opportunity in the current climate. Hamilton's strategic location, easy access and relative affordability all remain draw cards for investment and growth. The city has proven its resilience before and will undoubtedly do so again.

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