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## PROPERTY INSIGHTS

### The State of the Christchurch Spec Building Market

#### EXECUTIVE SUMMARY

Historically the cycles in residential building consents in Christchurch City have been materially more volatile than the national cycles. But why is it so volatile given that Christchurch's population growth roughly matches national growth, and does Christchurch face more downside risk in residential building activity than we are predicting for the national market (see our **Building Barometer** reports for the national predictions)?

A possible cause of the volatility is that during periods of high population growth there is a stronger supply-side response in Christchurch than nationally (e.g. more spec building activity). The flip side may be that during periods of low population growth the over-exuberance during the boom comes home to roost and residential building activity in Christchurch falls more than nationally.

In trying to answer this question we have conducted a survey of spec building for Christchurch City using the Real Estate Institute's website ([www.realestate.co.nz](http://www.realestate.co.nz)). In our search we discovered 163 finished spec dwellings advertised for sale in Christchurch City, 84 spec dwellings under construction and advertised for sale, 356 planned spec dwellings being advertised (some of which will already be under construction), and 34 near-new houses for sale which could well have been built as spec houses. To the extent that some builders and developers sell spec houses direct to the public, the number of spec houses we found will understate the actual level of spec building.

To put these numbers in perspective, based on the 2,000 consents per annum for Christchurch City on average over the last 14 years, the 257 spec dwellings either finished or under-construction that we found advertised for sale represent around 13% of Christchurch's total annual new housing needs. If the planned spec dwellings are included it equates to around 30% of Christchurch's total annual new housing needs.

Without being able to put these numbers in historical perspective our conclusion must be qualified because we do not know what is normal, but Christchurch would appear to have more than an ample stock of unsold and planned spec housing. This implies potential downside risk to Christchurch City residential building activity over the next year or two in addition to the unfolding negative impact of higher interest rates and lower population growth (see our **Interesting Times** reports for the most insightful analysis available on interest rate prospects, while both our **Housing Prospects** and **Building Barometer** reports contain analysis of migration prospects).



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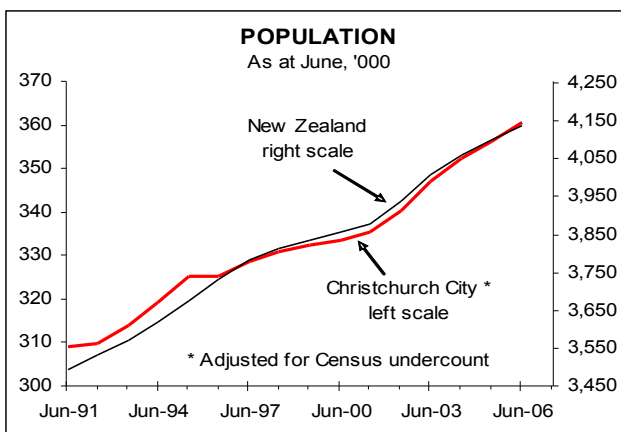
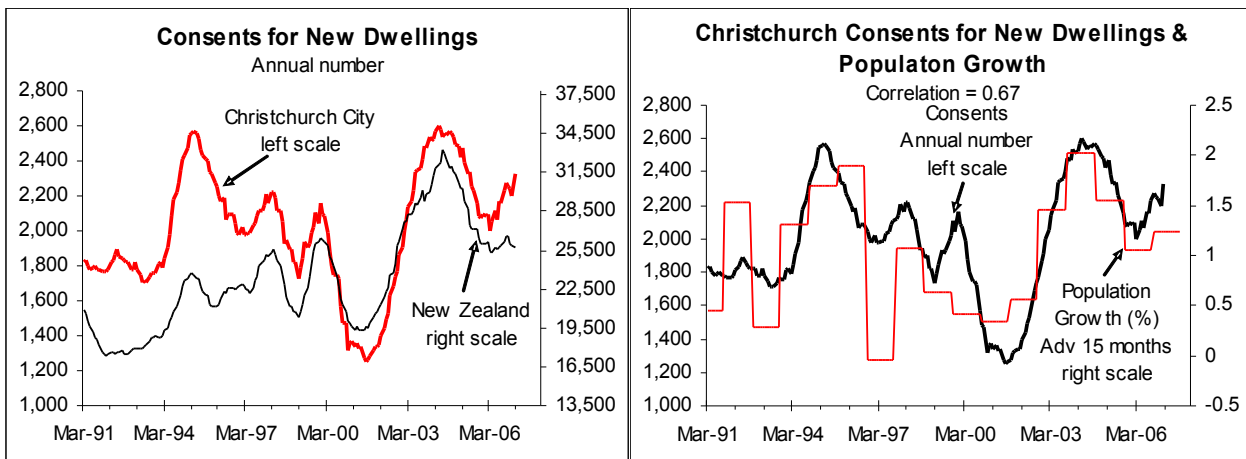


**Christchurch City has a surprisingly volatile history on the residential building front**

Historically the cycles in residential building consents in Christchurch City have been materially more volatile than the national cycles (see the left chart). But why is it so volatile and is there a major downturn to eventually follow the latest boom, just as there was a major downturn after the boom in the mid-1990s?

The best explanation for the major cycles in Christchurch residential building activity seems to be the cycles in local population growth (the right chart below). The best fit is with the red population growth line advanced or shifted to the right by 15 months to reflect how long it takes on average for changes in population growth to filter through to consent numbers. The correlation, at 0.67 (1.0 being a perfect fit), is OK but not great in part because other factors, especially mortgage interest rates, also impact on Christchurch residential building activity and at times, like in 1999-2000, can have an overriding impact.

Christchurch population growth has roughly matched national growth (see the second left chart). With signs that external migration – the key swing factor in both national and Christchurch population growth – will run below average this year (as covered in our **Housing Prospects** and **Building Barometer** reports), the odds favour Christchurch population growth heading lower this year. This most likely implies a lower level of residential building activity next year, which rising interest rates also point towards. However, if Christchurch’s population growth roughly matches national growth, why have the cycles in Christchurch residential building activity been so much larger than the national cycles?



A possible answer is that during periods of high population growth there is a stronger supply-side response in Christchurch than nationally (e.g. more spec building activity, a larger increase in section supply, a greater inclination of immigrants and/or locals to build new houses in such situations). The flip side may be that during periods of low population growth the over-exuberance during the boom comes home to roost and residential building activity in Christchurch falls more than nationally.

Locals who have been involved in the industry over the last 15 years or more and can remember what occurred in the 1990s might be better placed to answer this question.

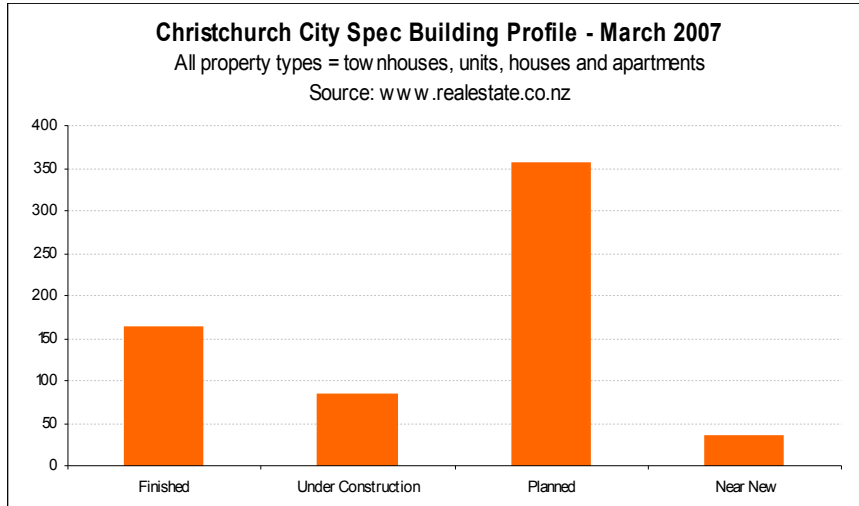
**How many unsold spec developments are healthy and how many are too many?**

In trying to answer this question we have conducted a survey of spec building for Christchurch City. We have used the Real Estate Institute’s website ([www.realestate.co.nz](http://www.realestate.co.nz)) to try and assess whether there is an excessive amount of spec building associated with the current high level of residential building activity in Christchurch. If there is an excessive amount of spec building during the current boom, the implication is that during the next downturn there will be an exaggerated fall in activity. Tauranga City, including Mt Maunganui, provided a good case study of this sort of behaviour in the 1990s. However, as covered in our latest **Building Barometer** report, the main sources of downside risk to national and Christchurch residential building activity comes from rising interest rates and lower net migration.

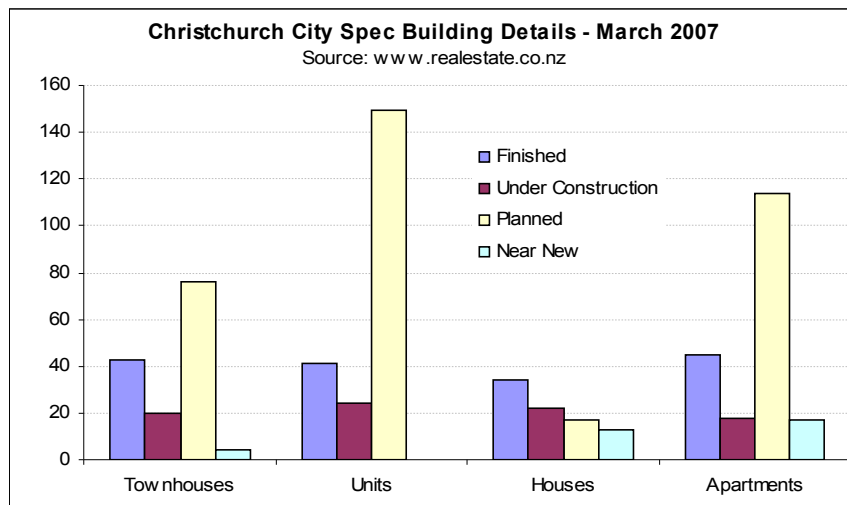
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In our search on [www.realestate.co.nz](http://www.realestate.co.nz) we discovered 163 finished spec dwellings advertised for sale in Christchurch City, 84 spec dwellings under construction and advertised for sale, 356 planned spec dwellings being advertised (some of which will already be under construction), and 34 near-new houses for sale which could well have been built as spec houses. To the extent some developers do not use real estate agents to advertise their spec houses these numbers will under-estimate the stock of spec houses either currently or soon to be available for occupation in the Christchurch market.



The four categories in the chart above are each broken down into townhouses, units (mainly two-bedroom retirement units – a feature of the Christchurch market), houses and apartments in the chart below. As the chart below shows, there is a good spread of spec building activity across all four types of dwellings. On the last page there is a selection of photos of these categories of spec building.

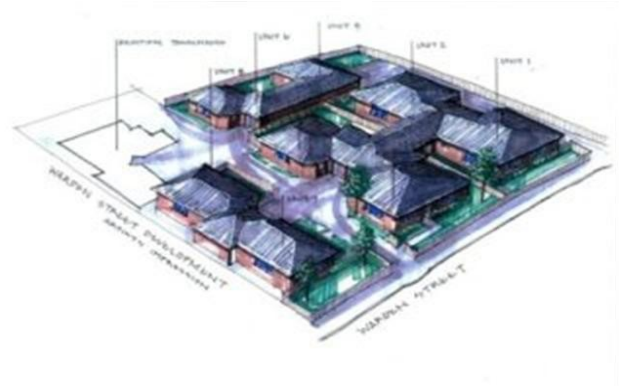


To put these numbers in some perspective, based on the 2,000 consents per annum for Christchurch City on average over the last 14 years, the 257 spec dwellings either finished or under-construction that we found advertised for sale represent around 13% of Christchurch's total annual new housing needs. The planned developments will progress in many instances, driven by the need for the builder/developer to finish the development to get money out, so if we take all categories into account, including the planned spec dwellings, it equates to around 30% of Christchurch's total annual new housing needs.

Without being able to put these numbers in historical perspective or in the perspective of the national situation, it is hard to say whether Christchurch faces a glut of unsold spec dwellings that will in time drag down the level of residential building activity in addition to the unfolding negative impact of higher interest rates and lower population growth. However, the amount of unsold spec dwellings we discovered (again noting that we will not have picked up any that builders/developers are trying to sell direct to the public) did seem excessive relative to what we would expect to find in a healthy market. When we visit Christchurch in May we will investigate the situation first hand to gain a better understanding (assuming we don't get chased out of town by spec builders).



Examples of two-bedroom retirement unit developments:



Examples of up-market, planned townhouse developments:



Examples of spec houses (the first built and the second planned):



Examples of apartment developments, Christchurch has a mix of large and terraced-house style:



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