

Insights

Topical commentary on the Auckland economy



September
2018

What are we building and how has it changed?

- Consents for new dwellings are the highest they've been for 14 years and are approaching the highest ever, which is welcome news against a backdrop of a housing shortage of 46,000 dwellings.
- The mix of dwelling type has changed significantly, and the average dwelling size has plummeted, mostly due to budget constraints encouraging a switch from stand-alone houses to townhouses and apartments, but also due to changing patterns in apartment and townhouse size.
- Multi-unit dwelling construction requires a skill-set that differs somewhat to that required for stand-alone homes, and is more akin to non-residential building. With the recent surge in non-residential building activity, this suggests we will see non-residential and more complex multi-unit developments competing for workers.

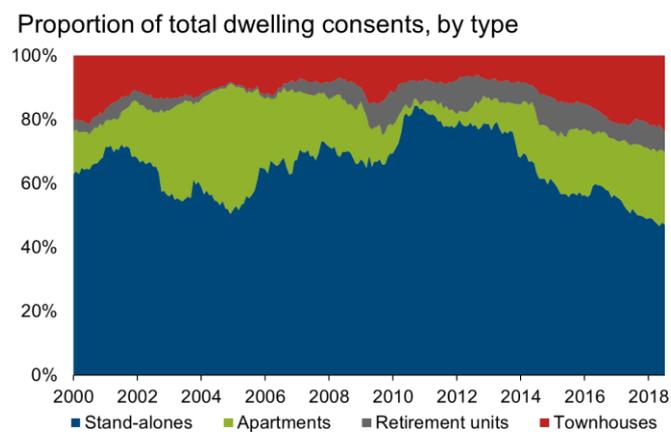
Unitary Plan encourages different mix of dwelling types

The last eight years have seen massive changes for the Auckland Region. Between 2010 and 2017, Statistics New Zealand estimates that Auckland's population grew by over 15%, with the bulk of the growth in just four years. At the same time, new home construction could not keep up. Our most recent estimate is that we have a housing shortfall of about 46,000 dwellings. This is up about 4,000 in the last year – even with a substantial uptick in the number of dwellings under construction.

A swelling population and housing shortage was directly targeted by the Auckland Unitary Plan (UP) which became operative (in part) in late 2016. The UP drastically changed what could be built and where. Most of Auckland received zoning that allowed for more dwellings to be built than before. This allowed for many more apartments, townhouses, and other attached dwellings than under the old zoning regulations.

But just because more dense housing has been enabled, does not mean the market will respond by switching to new typologies and delivering what the UP has enabled. But it has. In 2010, 84% of all new dwellings consented were stand-alone homes. Even though this is a historically high figure, it shows where Auckland was pre-amalgamation.

By 2016, stand-alone houses accounted for 55-60% of all dwellings consented. In the past 12 months, this figure has shrunk to about 47%. In the 28 years for which there is data, the percentage had never previously been under 50%. All of this tells us that, at the very least, the UP has enabled the trend towards multi-unit development that started around 2014 to continue and even accelerate.



Put another way, while the number of dwellings consented over the past 12 months is three and a half times higher than over the year to May 2010 (12,300 v. 3,500), stand-alone dwelling consents have only doubled (5,700 v. 2,900). During this time, the number of apartments has increased by a factor of 30 and the number of townhouses has increased by a factor of nine.

A classic onion pattern

We're now seeing development patterns exactly as we'd expect in a city (see also the map on the back page). Land close to the CBD is more expensive and is more intensively developed in response. But now, areas close to the CBD like Albert-Eden-Roskill Ward, North Shore Ward, and Waitemata and Gulf Ward have also experienced significant growth in apartments.

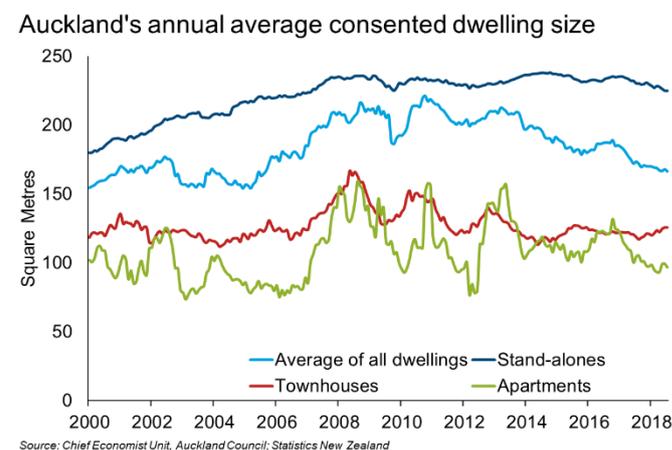
Townhouses are the next highest density of development, and these are growing fastest in the wards surrounding the ones with high apartment growth – Albany, Manukau, Manurewa-Papakura,

Maungakiekie-Tamaki, and Waitakere have all seen intense townhouse growth. Finally, areas on the edges of the region like Franklin, Howick, and Rodney Wards have the biggest share and some of the largest numbers of stand-alone houses being consented.

The drivers of shrinking size

At least two factors are affecting average dwelling size in Auckland. The dominant factor is the changes in typology over the past several years. It is no secret that stand-alone houses are usually the largest, followed by townhouses, with apartments being the smallest, on average.

As house prices have surged, people have been making the trade-off to apartment or townhouse living to overcome budget constraints.



So as more of the smaller attached dwellings are being constructed, the average new dwelling size has shrunk considerably. In 2010, the average new dwelling was about 213 square metres, while this past year it was 167.

But a second factor has had a subtler impact – the changing size *within* the apartment and townhouse typologies. Since 2007, newly built houses have remained almost the same size, though they are very slightly smaller over the past two years. Townhouses have also gotten smaller over the past 10 years but are directly in line with the average townhouse built since the turn of the century.

Apartments seem to be much more variable, bouncing around between an average of 80 and 160 square metres. Anecdotally, this is a product of the “shoebox” student apartment boom in the mid-2000s, followed by the Global Financial Crisis (GFC). As the New Zealand economy began recovering from the GFC, large penthouse

apartments in attractive locations (e.g. Wynyard Quarter) were built. Since then, however, price pressures have required more “mainstream” purchasers to buy apartments, and average size has fallen to around 100 square metres.

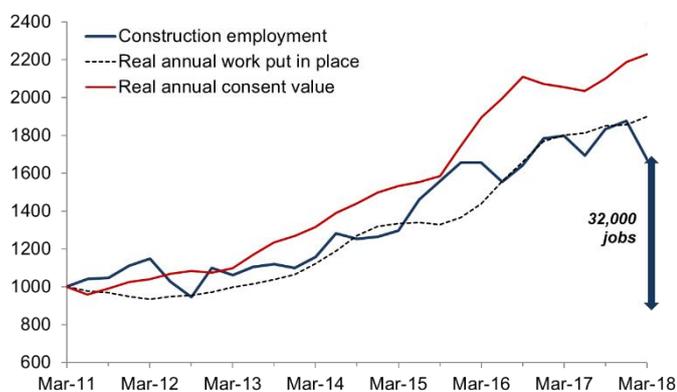
All of this tells us that the average dwelling size is changing – not *predominantly* because houses, townhouses, and apartments are becoming particularly larger or smaller – but because the share of each type of dwelling has changed so massively. In fact, over 80% of the size change since 2010 can be attributed to the mix of housing type.

What does this mean for Auckland’s housing shortfall?

The good news is that Auckland is delivering the more intensive development closer to jobs and other amenities that has the added bonuses of limiting additional congestion, minimising environmental impacts, optimising existing infrastructure, and making public transport more viable. And the volume of homes being delivered is rising.

The more challenging question is how we are going to get all this multi-unit residential building done, especially with the massive increase in non-residential buildings consented (up more than 60% in the year to June 2018)? The additional non-residential development is driven by increased private sector demand for space, which use a lot of the same trade skills as multi-unit residential development. This means competition for workers to undertake these two development types – non-residential building and multi-unit residential building – will be strong.

Employment, delivery, pipeline, index = Mar 2011



source: Chief Economist Unit, Auckland Council; Statistics New Zealand

The government has announced a wider immigration programme (rather than its initial Kiwibuild visa proposal) to address the demand for construction workers, but as the graph below shows, the gap between what we’ve consented and what we have delivered is already significant and may well widen as the competition for workers on more complex projects accelerates.

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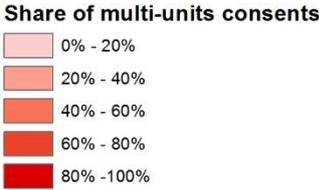
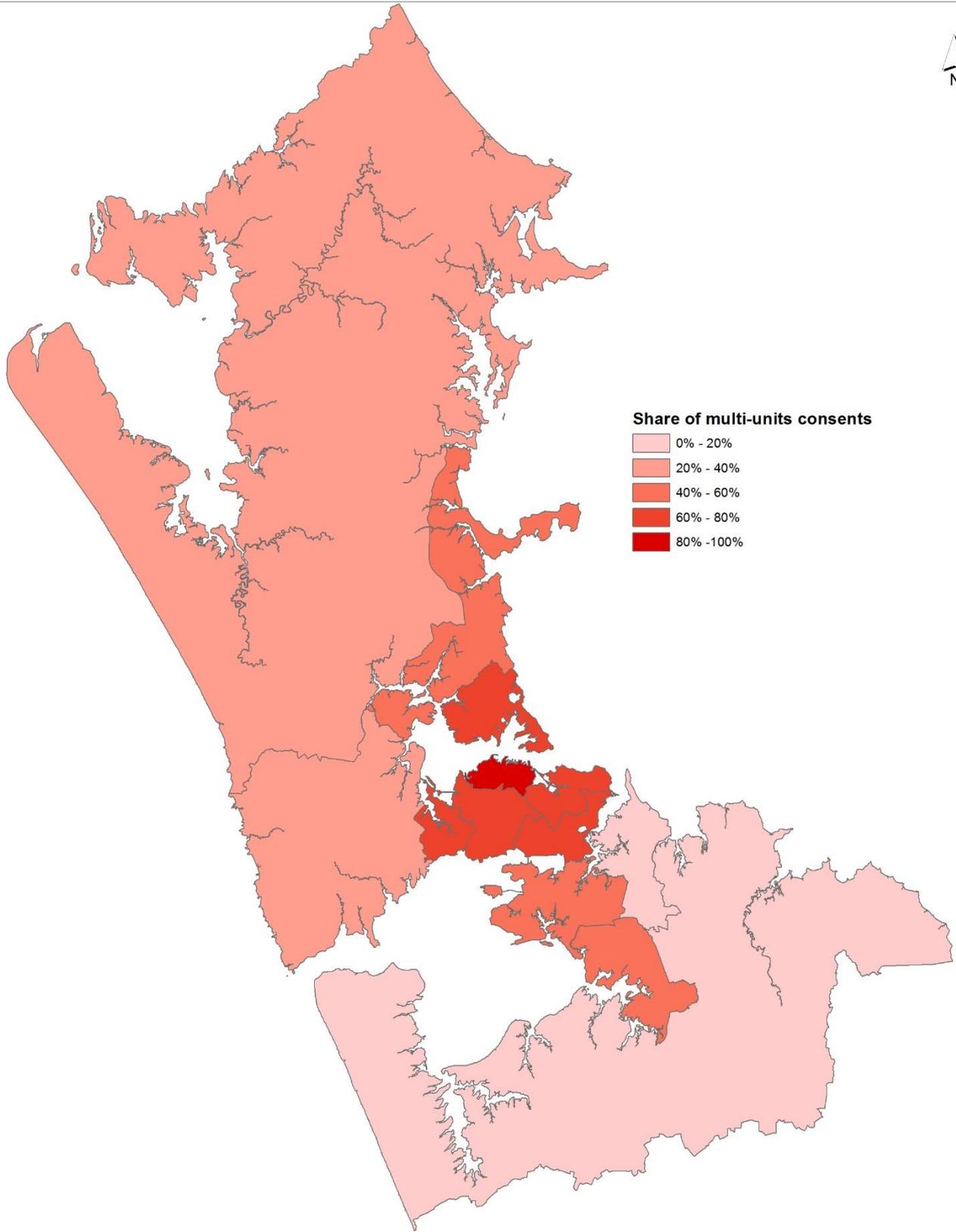
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Share of multi-units consents

0 2,750 5,500 8,250
Meters
Scale @ A4
= 1:548,902
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