



Insights

Topical commentary on the Auckland economy

May
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What's so special about character

- Properties sell at a premium for having been upzoned or for being located in a designated special character area (SCA), but not both.
- Over the last few years, the observable premium for properties in SCAs has been falling, and the premium for being upzoned has been increasing.
- Thus, it appears that buyers are placing increased emphasis on what they can do with a property, and less emphasis on the designated special character of the neighbourhood.

What we already know

Over the past several months, the Chief Economist Unit has published papers that have quantified the premium or discount that certain attributes of a property or its environment have on Auckland house prices. [Upzoning a property](#) (i.e. allowing more dense development on a parcel of land) increases its value. This “upzoning premium” varies across the city, but is always positive.

We also quantified the impact on property prices of both [property and neighbourhood characteristics](#) like school zone, views, dwelling size and quality, and proximity to parks, schools, and roads.

Upzoning reflects the need for Auckland to increase housing density in order to accommodate a population that has grown massively over the past decade.

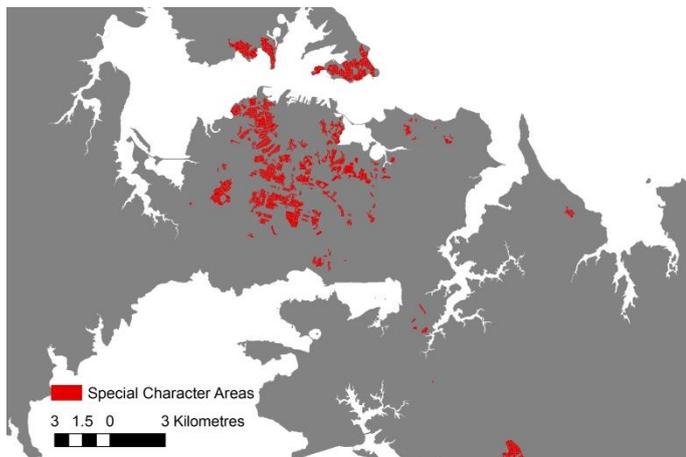
For example, in already developed areas, upzoning allows existing dwellings to be removed and replaced with several new dwellings. By using the existing infrastructure more efficiently, denser zoning helps Auckland accommodate an increasing population near existing public amenities, and makes things like public transport more viable.

Special Character Areas

In contrast, many parts of Auckland, especially on the isthmus, are covered by heritage and Special Character Area (SCA) protection rules.

SCAs are areas with notable or distinctive aesthetic, physical and visual qualities. The attributes that contribute to the character of SCAs include the

predominance of buildings of a particular era or architectural style, a distinctive pattern of lot sizes, street and road patterns, the presence of mature vegetation, the relationship of built form and natural landscapes, and the use of traditional materials and design elements.



There are 50 SCAs in Auckland, covering approximately 5.6% of land parcels in the region.

In the Auckland Unitary Plan that became largely operative in late 2016, buildings in the SCAs are managed in order to retain their special character with controls on demolition, design and appearance of new buildings, and additions and alterations to existing buildings.

Most, but not all, dwellings located in SCAs are zoned for single house use and no further development has been enabled under the Unitary Plan. However, there is a handful of properties where increased density is theoretically enabled, but with SCA restrictions intact. Similarly, there are properties that were previously in SCAs that were removed from SCA protection in the Unitary Plan.

Thus, there is an inherent tension between maintaining heritage and increasing density.

The questions our latest research sought to answer were whether Aucklanders place any value on SCAs through the price they are willing to pay for a house there, what that premium is, and whether it has changed over time.

The value of SCAs vs upzoning

Our analysis found that the relatively stringent rules to protect buildings in SCAs led to the emergence of a price premium for properties inside SCAs that averaged about 9% between 2012 and 2014, after accounting for dozens of other factors that affect

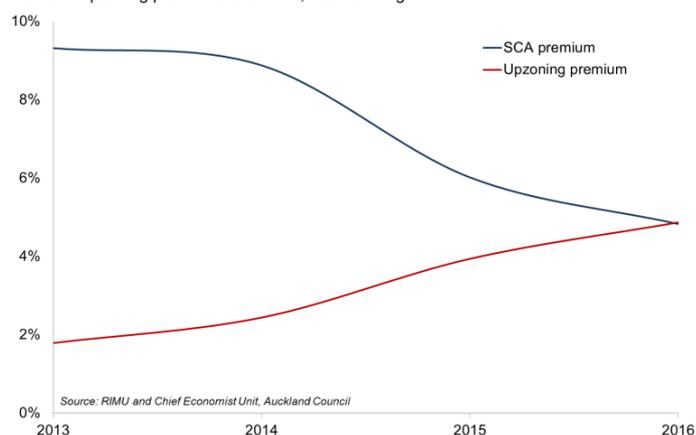
property prices, including proximity to the CBD (as most SCAs are on the isthmus).

But we also found that as the Unitary Plan process progressed and greater certainty unfolded on where upzoning would occur and where special character areas would be, an upzoning premium emerged and the heritage premium shrank. This is indicative of the trade-off Auckland purchasers are making when they decide between properties designated as having special character, and meeting demand to accommodate the swelling population.

The Unitary Plan's Independent Hearings Panel extensively discussed the role of heritage and SCA protection, and the options and impacts of removing these protections from a number of sites across the city. Relaxing regulations would allow developers to replace older houses with a larger number of new dwellings.

Although no binding commitment occurred for any particular area until the Unitary Plan became operative in late 2016, the impact of announcements in draft versions of the plan were priced in much earlier. A sharp decrease of the SCA premium occurred in 2015 and, by 2016, it was down to about 5%, from 9% in 2014.

SCA and upzoning premiums over time, Auckland region



At the same time, upzoning premiums were increasing across the city. The first major draft of the Unitary Plan was published in 2013, so the average upzoning premium across Auckland that year was fairly small. As further revisions to the Unitary Plan occurred, the upzoning premium increased as certainty increased. By 2016, it was around the same size as the SCA premium.

Of note, there seems to be no premium for properties that are both in an SCA and allowed higher density than before. This is likely related to

the restrictions on what can be done with properties that have been upzoned but are still within SCAs.

What does this tell us?

In summary, we find (as before) that upzoning adds value to housing prices. We also find that the premium for housing in SCAs is real, but has decreased over time. This is indicative of a demand shift from the protections of an SCA to how flexibly the land can be developed.

This information provides the grounds for a balanced discussion on the relative merits of upzoning for more development, and the design or enhancement of preservation policies. It also allows for better housing market valuation.

How we did it

This article is a companion to our previous pieces on Auckland's housing market. Using a dataset of residential property sales from the past several years, we developed a model of house prices that includes both zoning and heritage/SCA attributes.

We used five years of housing data, including sale prices, housing characteristics (age, land area, garage spaces, construction material and condition, and others), neighbourhood characteristics and other variables related to location within heritage areas or SCAs, and distances to urban and environmental amenities. The dataset included about 100,000 observations after removing outliers and entries with inconsistent information. A fixed-effects model with clustered standard errors was estimated to determine the upzoning and SCA premiums.

It built on prior work¹ being prepared for publication.

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¹ Bade D, Castillo JG, Fernandez M, Aguilar J. *The Price Premium of Heritage in the Housing Market: Evidence from Auckland, New Zealand*. Manuscript in preparation.