Insights

Topical commentary on the Auckland economy

April 2020

What do people value and will it change?

- There is a lot of uncertainty in the world right now, and this has changed what people value. But it remains to be seen if changes in consumer preferences will be short- or long-term.
- When it comes to housing, Aucklanders' preferences are well-established. Properties closer to the city centre, with wide views of the water, or located near town centres are worth more. While it is not profound that people value these things, it is helpful to know ***how much***.
- Housing preferences may or may not change in the long-term. Once there is less uncertainty in the world and healthcare and financial systems have headed towards recovery, we will be able to determine if the things people value in a home have changed (and by how much).

An extraordinary passage of time

The first few months of 2020 have created an incredible amount of uncertainty in New Zealand and abroad. As a new virus makes its way across the globe, the things that people value have changed drastically and quickly. In times of uncertainty, the demand for necessities surges while demand for luxuries falls. For instance, people have rushed to buy toilet paper, medicine, flour, rice, bread, and other groceries while perhaps, putting off the purchase of big-ticket items like a new car. But it is unclear how preferences may change irreversibly once life returns to something closer to normal.

What about housing preferences?

Our recent work on the housing market looked at whether the Rural-Urban Boundary (RUB) imposed a premium on properties inside the boundary. To answer that question, we used property sales data for the two and a half years following the Auckland Unitary Plan (AUP) becoming operative and controlled for things that make a property valuable.

This ensured that any premium we estimated for the RUB did not also include premiums for being close to amenities or located in certain types of school zones. However, a handy consequence of this work is that we were also able to identify the preferences of property-buyers in Auckland and see ***how much*** the market valued different amenities. This gives us a good baseline to compare to in the future.

Chief Economist Unit
Auckland Council
Te Kaunihera o Tāmaki Makaurau

The rocket science is how much

In most cases, it's common sense what adds to and subtracts from the value of a property – steeply sloped land is less valuable than flat land and bigger homes have higher prices than smaller homes. However, for other things, it is less obvious. For instance, is a home with a tile roof more valuable than one with a metal roof, all else equal? (the answer is no) Or is a home built in the 1940s more or less valuable than a newly constructed home? (the answer is that it's about the same).

In cases where the answer is obvious (yes, properties with water views are more valuable than those without), the ***size*** of these differences is still of interest. The magnitude of the difference tells us ***how much*** Aucklanders value these things. In future, it will be interesting to see if the pandemic changes any of people's preferences. But, in order to know that, we need to describe and quantify our preferences from before.

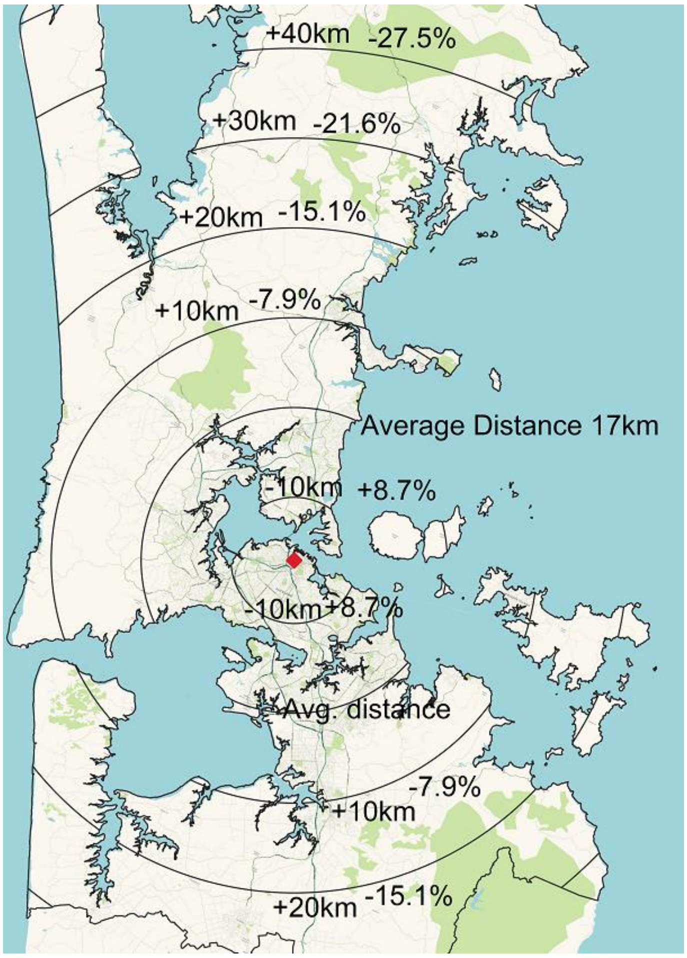
Real estate agents are right about this

Location, location, location. The average residential-sized (roughly an acre or less) property in the Auckland region is about 17km from the city centre; Torbay, Howick, Swanson and Papatoetoe are all around the average distance. A property, identical in all other ways, but located 10km closer (roughly where Takapuna, Kohimarama, Avondale, or Ellerslie are) would have a value almost 9% higher (roughly $85,000 more), even before considering that these closer suburbs likely have better access to other services and amenities that people value.

In the other direction, a property located 20km further than the average property from Auckland's city centre is worth about 15% less ($144,000) than the average property – all else equal. This is roughly how far away Waiwera, Hunua, Helensville, or Ramarama are. The map shows how property values vary with distance relative to the average distance of 17km from the city centre.

That being closer to the city centre adds value should not be too surprising. Around 1 in 6 jobs in Auckland are located here, where 20% of Auckland's GDP is generated, but ***how much*** value people place on proximity to jobs really matters, although some have ignored these facts as our previous work has pointed out.

However, it is not only access to the city centre that affects a property's value. Our research found that having close access to a town centre, an arterial road, or the water all add value. Being located within 200m of a town centre adds nearly 17% ($163,000) while being 200m to 1km away adds about 3.5%. Being within 2km of an arterial road adds around 4.5% ($43,000), while being within 400m of water adds around 5% or $48,000 (even before accounting for any views).

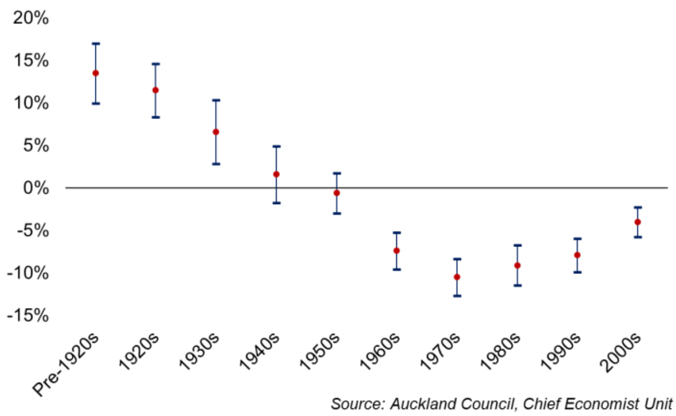


Of course, not all locations are ***good*** locations. Sometimes, being close to something is good, but being ***too*** close is undesirable. For instance, while we found that being within 2km of an arterial road adds around 4.5%, being within 100m subtracts around 1.4% ($13,500). By far the location with the largest negative effect was being within 100m of railroad tracks. Here, values were almost 9% ($85,000) lower than for properties further away.

Something old, something new…

The age of a dwelling also has a massive impact. Using a newly built house as the baseline, the older a house is, the less valuable it is – up to a point. Our research shows that, all else equal, houses built in the 1970s are the least valuable in Auckland, selling for around 10% ($96,000) less than a newly constructed home. Houses built in the 1940s and 1950s have roughly the same value as newly built houses, and houses built in the 1930s and earlier sell at a premium. This is after accounting for the fact that houses built before WWII are often located much closer to the city centre in more affluent areas. It also excludes any effect of special character areas.

Value added to house, by decade of construction, relative to 2010s



Source: Auckland Council, Chief Economist Unit

Expansive and expensive views

One thing that has remained constant throughout our research is the value of views. While we've never directly reported the value of different types of views in our research on the housing market ([see one example here]), we have always considered them when modelling property prices. Consistently, and unsurprisingly, wide views of the water have the highest value of any type of view. This type of view adds almost 17% to the value of a property, all else equal. On the average Auckland property, this is a staggering $163,000. However, even a peek at the water adds around 6.7% to the value of a property, or around $65,000. Somewhat surprisingly, views of other things like mountains or the city skyline do not appear to add much, if any, value.

A new (temporary?) way of life

With the way we've had to reorganise our lives, with all but essential workers having to work from home and an increased reliance on online shopping, it will be interesting to see if the preferences of Aucklanders change long-term.

It is possible that people's housing preferences may change, too. It could be that people stuck at home in an old house for weeks on end through autumn and possibly winter may value a newer house with double glazed windows and modern insulation more than the 1920s villa, or that after a month of isolation, the value of a nice view out the window will be even higher. Similarly, people may put higher values on access to arterial roads as they avoid public transport, or may place lower values on town centre access where people congregate. They may place more value on access to large swathes of green space for exercise. This is just speculation, but once the world returns to something more closely resembling business as usual (however long that may be), these changing preferences will be reflected in market prices.

As we write, the real estate market is effectively at a standstill. We will be keeping a keen eye on how things restart from pretty much zero activity, when they do, to understand how people's wallets reflect how their preferences may have changed.

How we did it

All of the modelling for this paper is based on the work we did on the Rural-Urban Boundary. Sales of freehold properties between the AUP becoming operative and the first quarter of 2019 were modelled using a log-linear spatial error model. Full details are available in the linked report.

Shane L. Martin, PhD
Senior Economist, Chief Economist Unit

Disclaimer

Find out more: visit the Auckland Council Chief Economist Page
or contact us chief.economist@aucklandcouncil.govt.nz