

Auckland Economic Quarterly

Chief Economist Unit

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Please, Sir, I want some more

- Auckland will be required by central government's new National Policy Statement on Urban Development (NPS-UD) to allow more development than the current Unitary Plan allows.
- This upzoning will be focused around the city and metropolitan centres, rapid transit networks, and in all other locations commensurate with the accessibility and relative demand for housing and business there.
- The best measure of demand is land values – what people pay to live in particular areas.
- In Auckland, there is a mismatch in some areas between land that is high value, and current residential development potential. This is true across distances from the city centre and current zonings.

- Land values show that more upzoning is demanded closer to the city, where the highest paying jobs, best transport links and access to other amenities exists.

How did we get here?

Large swathes of Auckland were massively upzoned (which means the rules changed to allow much more efficient use of that land) in 2016. In aggregate, [this landmark study showed](#) there is sufficient development activity available inside the region's Rural Urban Boundary such that land prices are not being skewed up by that boundary.

Not all areas inside the Rural Urban Boundary were upzoned equally. Areas a long way from the city centre or major metropolitan centres were generally not upzoned much at all, which makes sense given the relatively low demand for property that far from jobs, transport links and other amenities. A ring much closer to the city centre, close to jobs, with the best public transport links in the city, and close to other amenities, also did not receive much upzoning.

The NPS-UD requires local governments to further upzone in and around city and metropolitan centres, and around rapid transit nodes (which typically means train stations and the northern busway in Auckland). It also requires upzoning in all other locations commensurate with the greater of accessibility and relative demand for housing and business use there.

How do we best measure accessibility? How do we measure relative demand? The Chief Economist Unit was asked to assist in analysing how the latter question pertains to all these **other locations** outside city centre, metropolitan centre and rapid transit catchments. Our analysis is the subject of this paper.

Measuring what people want

Some have suggested using number of sales or number of new dwellings consented in an area as measures of relative demand. But these indicators are already skewed by the very factors we want to strip out of our analysis: lots of homes get consented and sold where we have already zoned for more housing. The bigger question we really want to answer is if the right zoning is in the places people **most** want to be.

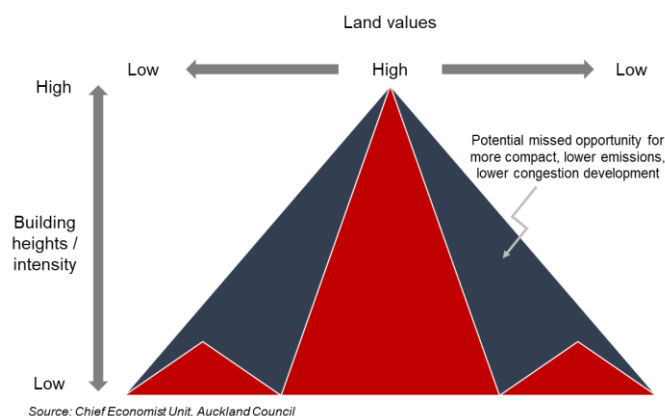
The NPS-UD recommends using land values as an indicator of demand. We agree. Land values are the best indicator of where, without budget constraints, people would prefer to be. That **does not mean** that no one wants to live in areas with lower land values. People often have links to neighbourhoods that may lack the location or amenity that make some areas more expensive. But the best indication of what area people value most **on average** and **in aggregate** is land prices there.

Two things make land valuable. One is its **proximity** to amenities that people value (location). The second is **what you can do with the land**. We want to determine the amenity that people derive on average from different locations, as if zoning was not a factor. That means a fair comparison of land values must strip out zoning and consider only the other attributes that drive land value.

Creating the triangle we need

Our work over the last four years has shown repeatedly that proximity to Auckland's city centre is one of the strongest and most certain pointers to value. The city centre is a great proxy for where the high paying jobs are, where public transport is best, and where a huge range of goods and services are available in a small walkable area, close to the water.

It will not shock our readers then that land values outside of the immediate city centre are highest in areas right next to the city centre. Cities around the world broadly follow a pattern where land that is valuable has the highest buildings, and at lower values you get lower buildings (the dark blue triangle in the stylised graphic). But this is not the pattern in Auckland, shown in red.

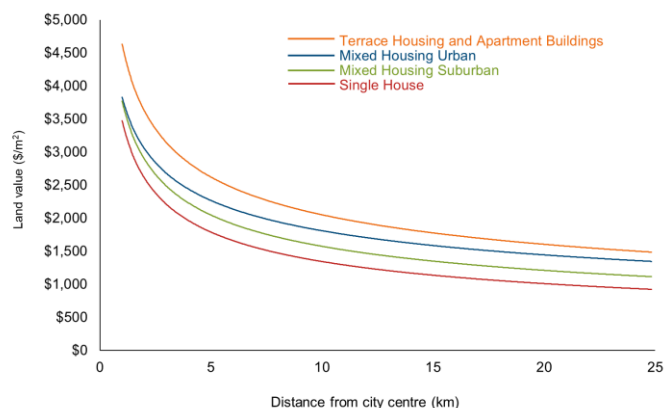


The dark blue triangle is simply not possible in Auckland under current zoning.

Where your wallet is, there lies your heart

So what does the empirical data say about relative demand for land across the region? Zeroing in on the city centre, we see that all four major residential zones, from THAB (Terraced Housing and Apartment Buildings) through to the least dense zoning (Single House) are massively more valuable closest to the city. At 10km from the city centre, land values are typically 40%-50% lower than at 2km from the city centre across the four residential zones.

Land value per square metre, by residential zoning type, by distance to the city centre



This demonstrates what we already know anecdotally – relative demand is far higher close to the city.

Looking across zones, the patterns are similarly obvious. On average, across all distances from the city centre, the highest value land is land that allows more efficient use (THAB). The lowest value land is typically that with the least efficient use (Single House) even closest to the city, where that zoning is quite dominant.

Given this pattern, are we currently delivering most development potential where it is most valued and where relative demand is highest? Short answer: No.

There are two sets of maps at the end of this paper. The first set shows in greater detail where the most valuable THAB land is, and how much of each area's residential zoned land is zoned THAB (from 0% to greater than 75%). The most valuable THAB land, worth over

\$4,000/m², is close to the city, but several areas close to the city have little or no zoning for THAB at all. In contrast, the second set of maps shows lots of single house zoned land closest to the city, where once again, land values are highest.

Being careful what we wish for

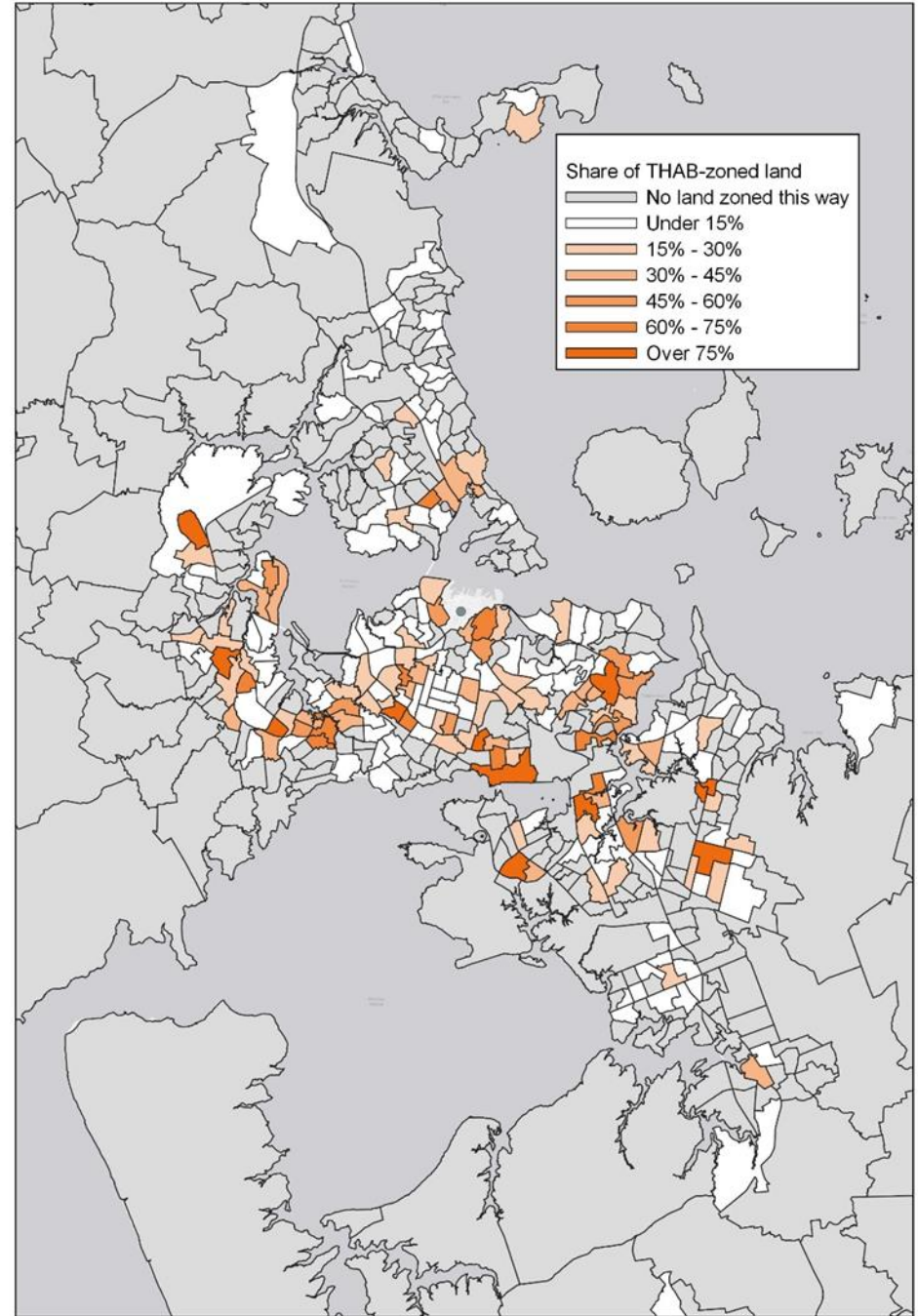
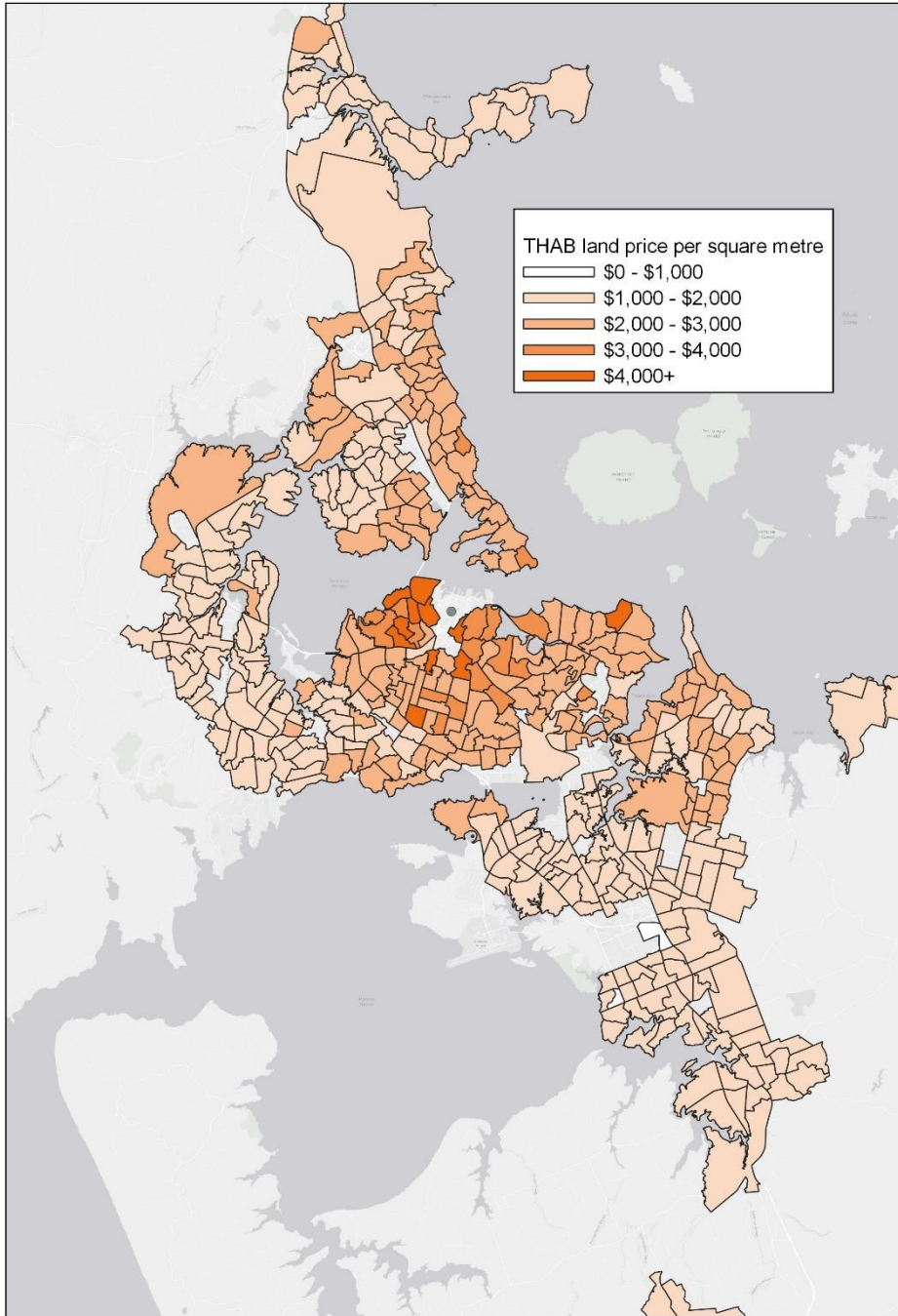
But the stroke of a pen increasing development rights closer to the city is not without its challenges and it would be naïve to ignore them. Key among these challenges are what infrastructure will be required to support the increased density clearly demanded, and who pays for that infrastructure. Property owners who receive upzoning, whether they choose to redevelop or not, will receive a huge windfall gain in property value from upzoning, based on the expectation that infrastructure will be provided to

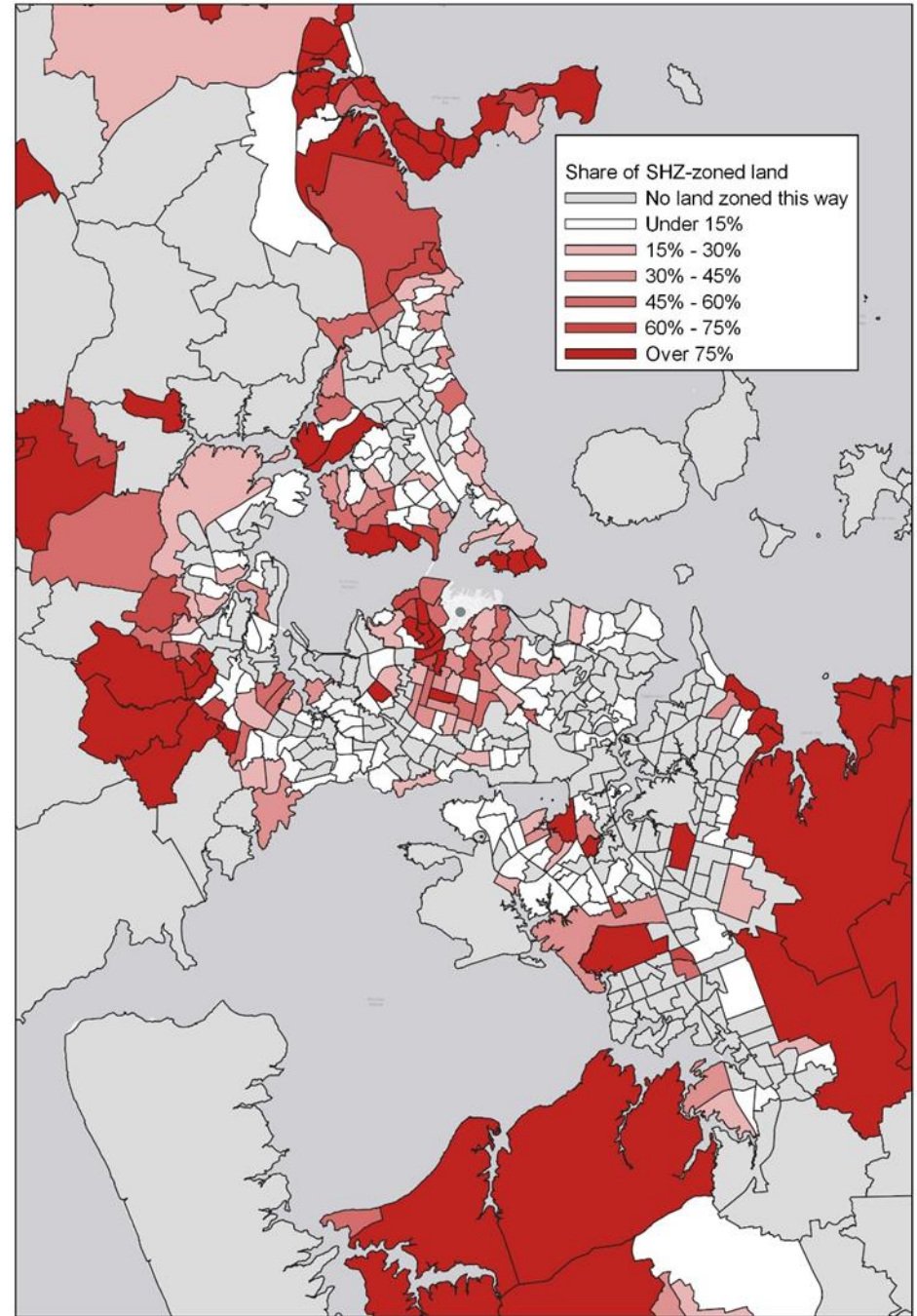
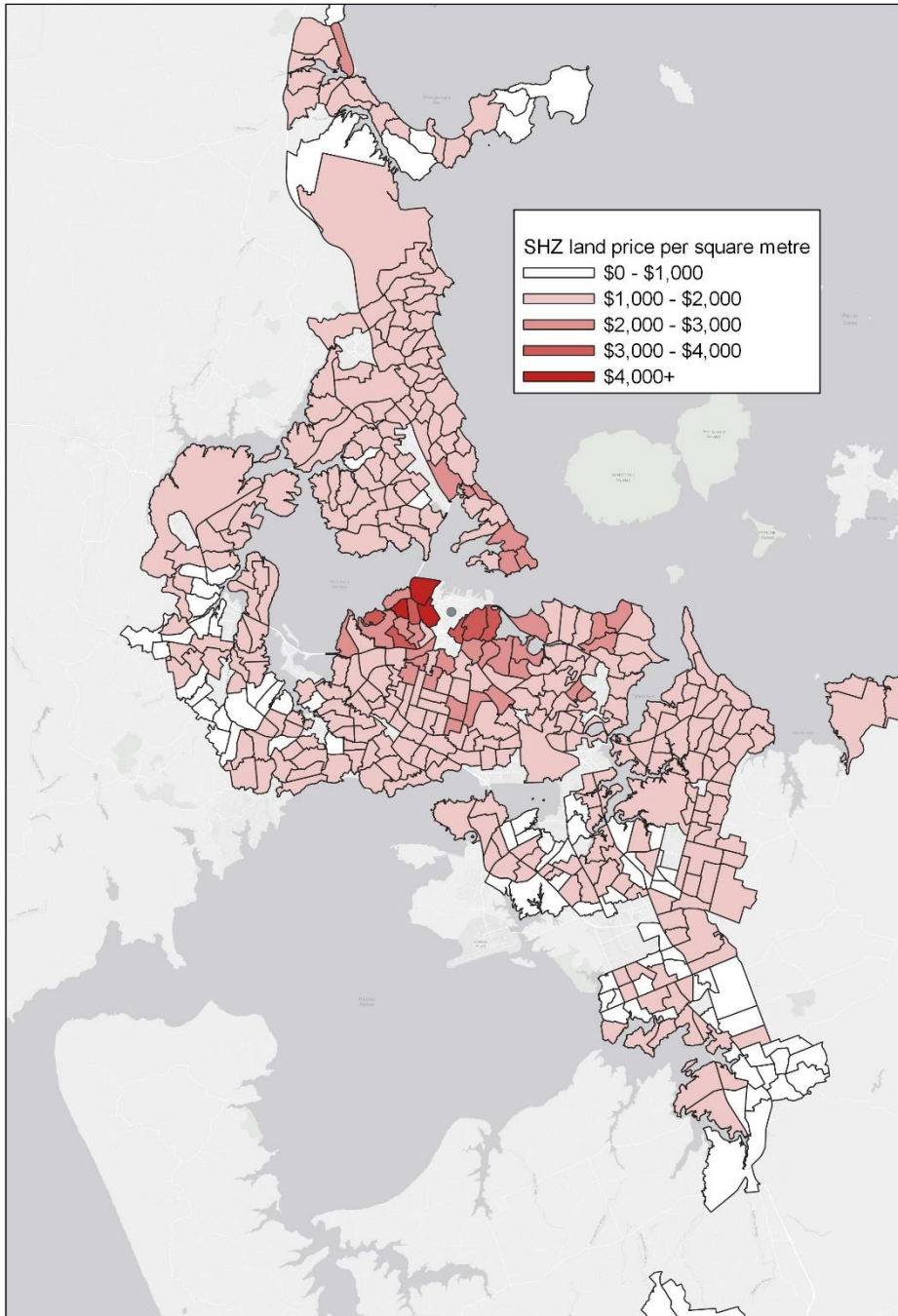
service a more efficient use of their land. It is good economics that those who receive the windfall value gain should contribute a commensurate share to the cost of that infrastructure.

An appropriate funding mechanism will need to be in place in advance of zoning changes. If not, a changed zone may just be an idea on paper, as no meaningful development could ensue.

A personal note from the Chief Economist

Today marks four and a half years as Chief Economist for me, and our 22nd Auckland Economic Quarterly in my time here. It is my last day at Auckland Council as I head off to a new role elsewhere. It's been a delight leading this team and communicating with our readers on issues and opportunities facing Auckland.





Economic Commentary

May 2021

Shyamal Maharaj

Economist, Chief Economist Unit

- Budget 2021, out last week, balanced fiscal conservatism with closing the socio-economic gap.
- Auckland is consenting more homes and completing more homes than ever.
- The government's new housing policies are yet to be reflected in house prices, but they will be. We anticipate the months to come will be more telling.
- Meanwhile, the Reserve Bank's May Monetary Policy Statement balanced better than expected economic results with ongoing risks to maintain an outlook broadly the same as before.

Budget 2021

National Budget 2021 champions the government's flagship approach of boosting wellbeing. It aims to balance the need for more social investment through increasing benefit payments by \$22 to \$55 per week over the next year (a roughly 20% increase), and reducing debt by a smidgen compared to Budget 2020. Because the fallout from COVID-19 was weaker than anticipated, the New Zealand economic outlook is a little rosier, giving the government room to address some of the societal disparities exacerbated by rising wealth inequality over the last year.

The New Zealand Treasury expects unemployment to reach a low of 4.2% by 2024. We think this is a bit optimistic because of the mismatch between jobseeker and official unemployment statistics. GDP is expected to grow by 2.9% this year and peak at 4.4% once borders open. The strength of this recovery is massively dependent on migration, which has been the main driver of New Zealand's economic growth for the last eight years, for better or worse. On current migration settings, we think growth would hit 5%. If the government changes settings sharply, it will be much lower than 4.4% when borders open.

The budget aimed very little directly at Auckland, contributor of 40% of New Zealand's tax take, over and above the impact of general budget spending.

Housing and construction

Housing remains one of the leading issues facing Auckland. Rising house prices create wealth inequality, but also stimulate development activity, and indicate confidence in the economy. We have previously written on our [expectations](#) of how recent announcements to housing policy are likely to impact the housing market. In a nutshell, we do not expect rents to rise more than they would have anyway, notwithstanding the budget's

increase in benefit payments may flow directly through to rents at the lower end of the market. We do not expect investors to tuck their houses under their arms and walk off; they will find a way to overcome cashflow issues or simply sell to another investor or a first home buyer at a lower price.

Nevertheless, house prices in Auckland remain elevated. In April, median prices in Auckland were up 22% in 12 months. Our SAM model shows that the affordability gains we had due to low interest rates and relatively flat house prices for three years has all but eroded away. In summary, it is way too soon to see the effects of the new policies on prices, but undeniably they will result in lower price growth than would otherwise have been seen.

Meanwhile, the number of dwellings consented continues to break records, surging past 17,000 in the past 12 months, at a growth rate of 17%. The switch to multi-unit (terraced houses and apartment buildings) rather than stand-alone homes appears to be accelerating, now at over 60%. However, our work is also showing that the timeline to deliver those units is widening. While this is expected given the capacity constraints facing the sector and rising construction costs, it does mean a significant lag between the commitment to build and new homes eventuating.

Despite this, Auckland Council has reported the highest ever number of CCCs (Code Compliance Certificates) issued. In the year to March 2021, CCCs issued increased by 24%, reaching 12,768. This is helping to erode the housing shortage that we estimate at over 25,000. The forced breather on migration is helping, but at the same time the pace remains constrained by the availability of labour to help deliver it faster.

Reserve Bank outlook

Inflationary pressures have seeped back into the economy faster than earlier anticipated. The Reserve Bank's May Monetary Policy Statement shows inflation expectations about 0.4 percentage points higher over the next two years than they expected three months ago. Still, the Bank sees inflation getting back to 2% sooner, but barely breaching the 2% mark. They expect some of the causes of this inflation to be temporary.

It has thus kept its balanced outlook, with the OCR expected to stay low into 2022 before slowly rising. It has factored in 1.5 percentage points of rises by the end of 2024. The Funding for Lending programme, which makes cheap funding available to banks, remains in place.

Data summary provided by [Ross Wilson](#) – Economic Analyst, Research & Evaluation (RIMU)

Indicator	Mar-21 quarter	Dec-20 quarter	Mar-20 quarter	5-year average	Rest of New Zealand Mar-21 quarter
Employment indicators					
Jobseeker support recipient growth (%pa)	44.7%	57.3%	18.1%	14.5%	27.2%
Annual employment growth (%pa)	0.4%	0.1%	1.5%	2.9%	0.2%
Unemployment rate (%)	5.3%	5.3%	4.8%	4.6%	4.7%
Unemployment rate among 20 to 24 year olds (%)	11.1%	11.6%	11.2%	9.4%	9.4%
Unemployment rate among 15 to 19 year olds (%)	20.8%	21.0%	16.8%	19.3%	18.0%
Earning and affordability indicators					
Monthly Employment Indicator earnings growth (%pa)	10.1%	5.9%	2.3%	4.2%	8.5%
Annual geometric mean rent growth (%pa)*	2.0%	4.5%	4.3%	3.3%	4.8%
Geometric mean rent to median household income ratio (%)*	26.4%	27.0%	29.2%	27.7%	24.4%
Annual median house price growth (%pa)*	18.5%	15.7%	10.5%	6.0%	24.1%
Mortgage serviceability ratio (relative to Dec-06)*	2.0%	3.4%	5.8%	-0.4%	10.9%
Construction					
Annual new residential building consents growth (%pa)	17.2%	9.9%	7.6%	12.9%	3.7%
Annual m2 non-residential building consent growth (%pa)	-27.6%	-32.0%	-22.5%	-4.7%	-10.5%
International connections					
Annual Auckland Airport int'l passenger movements (%pa)	-97.0%	-75.2%	-4.1%	-48.9%	NA
Confidence					
Annual retail sales growth (%pa)	0.7%	0.1%	4.6%	4.1%	1.3%
Quarterly Survey of Business Opinion (net optimists)	-12.2%	-18.2%	-66.3%	-14.9%	-12.8%
Westpac Consumer Confidence*	103.9	106.9	105.9	107.1	105.2

Sources: Chief Economist Unit, Auckland Council; Statistics New Zealand; Ministry of Business Innovation and Employment; Real Estate Institute of New Zealand; New Zealand Institute of Economic Research; Westpac; Reserve Bank of New Zealand; Ministry of Social Development. * Rest of New Zealand figures are for all of New Zealand including Auckland. Data is not seasonally-adjusted.

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