Housing: Auckland Supply Issues

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*Views expressed are exploratory, designed to stimulate debate on productivity issues; and are solely those of the author.
A Key Issue

• Median house price/median h’hold income:

  - Auckland ‘normal’: 3.0
  - Auckland 2006: 6.9
  - Brisbane 2006: 6.1
  - Austin (US) 2006: 3.1

• Why are Auckland prices so high?
Decade Price Increases (to 2005)
Land prices are the main ‘culprit’

<table>
<thead>
<tr>
<th>Area</th>
<th>House</th>
<th>Res. Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rodney</td>
<td>131%</td>
<td>315%</td>
</tr>
<tr>
<td>Nth Shore</td>
<td>110%</td>
<td>174%</td>
</tr>
<tr>
<td>Waitakere</td>
<td>115%</td>
<td>286%</td>
</tr>
<tr>
<td>Auckland City</td>
<td>115%</td>
<td>335%</td>
</tr>
<tr>
<td>Manukau</td>
<td>92%</td>
<td>108%</td>
</tr>
</tbody>
</table>
Expansion vs Intensification

• Expansion (sprawl) is curbed by MUL
• Intensification is curbed by:
  – Planning restrictions
  – Community opposition
  – Lack of suitable sites
Auckland’s MUL

- Land values vary by a factor of 10 across the MUL border.

- Implies zoning (MUL) affects land use (as it is designed to do).

- Hence, MUL impacts on shape & degree of development.
History of the MUL

- MULs in use in Auckland for >50 years
- Explicit MUL arose from ARPS
- In large part reflected earlier boundaries
- Recent small changes (e.g. Flatbush)
- Urban activities not permitted outside MUL
- Rigorously enforced
MUL Research Findings

• Auckland land price model estimated to capture key features of urban land prices
• Consistent large MUL boundary effect after controls for:
  – distance from CBD, town centres, social variables, coast, TLA, rural
• MUL boundary effect (post-1998) approx 10 (1000%)
Increasing Relative Value of Inner City

Impact of Distance from CBD on Real Land Values:
Baseline Model

Impact vs. Distance (kilometres)
Building consents 2000-2005: MUL & CBD Predominate
## Interviews - Developers & Local Govt: Major Constraints to Res. Development (% yes)

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Private Sector</th>
<th>Public Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of building materials</td>
<td>58%</td>
<td>30%</td>
</tr>
<tr>
<td>Cost of land</td>
<td>84%</td>
<td>70%</td>
</tr>
<tr>
<td>Land availability</td>
<td>79%</td>
<td>60%</td>
</tr>
<tr>
<td>Land ownership</td>
<td>74%</td>
<td>90%</td>
</tr>
<tr>
<td>Consent processing times</td>
<td>89%</td>
<td>50%</td>
</tr>
<tr>
<td>Planning procedures</td>
<td>84%</td>
<td>30%</td>
</tr>
<tr>
<td>Development contributions</td>
<td>84%</td>
<td>50%</td>
</tr>
<tr>
<td>Community opposition</td>
<td>68%</td>
<td>90%</td>
</tr>
</tbody>
</table>
Key Points

• Intensification has not been achieved except CBD
• Infill is difficult
  – Dispersed ownership & community objections
• Greenfields land is limited & expensive
• Council processes inhibit new supply

• Risk that Auckland’s development is stifled by high house prices
Implications for Policy

• Trade-off between housing affordability vs sprawl
  – Current policy choice is to make houses more expensive
  – But Auckland is land-rich
  – Could extend MUL around existing infrastructure (Nthn Mtway)
  – Regularly update infrastructure & land availability estimates
  – Expand land availability as required (tender to reduce cartel rents)
  – Tax land (cost of under-developed holdings)

• Make infill development easier (& better)
  – Address RMA (notification) & other regulatory issues
  – Examine extension of compulsory purchase provisions

• Development costs currently front-loaded
  – Consider council infrastructure bonds
  – And betterment taxes