AucklandEconomicQuarterly

Chief Economist Unit

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What people want: A plan becoming action

- The Auckland Unitary Plan (UP) took about 9 months to start affecting building patterns, but the rate of response has been faster than expected.
- The UP is now unequivocally delivering more brownfield growth, which maximises use of latent infrastructure capacity, makes public transport viable, and imposes fewer congestion externalities on other network users than sprawling development does.
- Recent data further confirms something so obvious, it's remarkable we have to make the point: people actually prefer living near work, on good public transport routes, with taps that run and toilets that flush, and near other amenities, than being further away from the city centre.
- This range of amenities makes brownfield land more expensive than greenfield land for good reason – people value these amenities. Developers have realised this too and are taking up more opportunities to deliver in brownfield areas.

The UP, which became operative in part (which really meant "mostly operative") in November 2016, determines what you can build and where across all of Auckland. It massively upzoned large swathes of the region, allowing for up to 1 million potential new dwellings to be built across brownfield (existing urban) and greenfield (as yet undeveloped, usually on the city-fringe) areas, in a mix of roughly two-thirds to one-third.

The UP is having the desired impact on what gets built and where. Auckland Council's consents team is seeing the impacts of this changing pattern in consenting demand. The design review team is seeing the impact in what it reviews for larger developments. And developers are seeing the business opportunities in providing what most people want – housing closer to jobs and amenities they value.

It took 9 months for the Unitary Plan to affect consents

Building consents for new dwellings grew in a remarkably steady way from 2012 through to April 2016. Suddenly, the pattern broke and growth plateaued about six months before the UP became operative in part.

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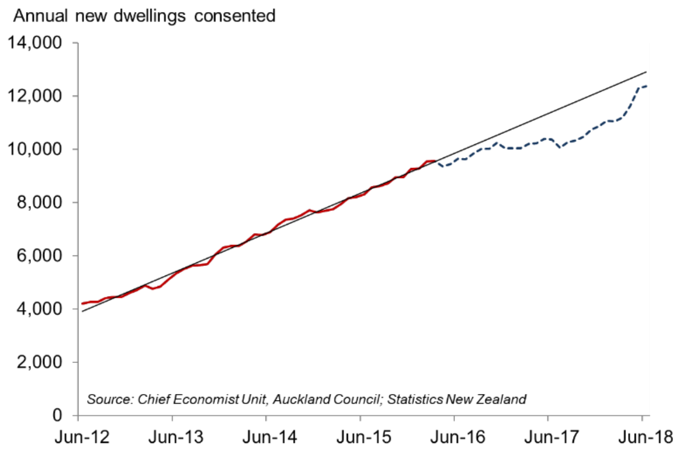
We know anecdotally that many investors had bought brownfield land in advance of the UP becoming operative and were waiting to lodge consents for more intensive development once the UP was official.



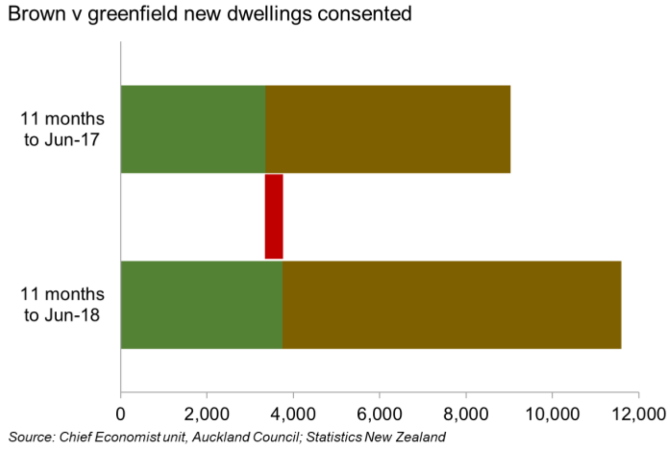
During the period from November 2016 to June 2017, the first few months of the UP being operative, consent growth was even worse, given Auckland had a housing shortage of around 40,000 at the time. Growth in new consenting was weak as developers made plans for more intensive development. Why would you seek consent for a 2nd dwelling on a section when by waiting 6 months for the UP and then getting resource and building consent, you could put up four on the same land?

Since August 2017, the impacts of the UP have been clearly seen

Residential construction's second wind began in August 2017. The number of new dwellings consented in the 11 months to June 2018 is up 25% over the same 11 months the year before, and only 4% off the all-time peak of the June 2004 year. This is despite a much tighter regulatory regime resulting from the introduction of the 2005 Building Code and the leaky homes debacle.

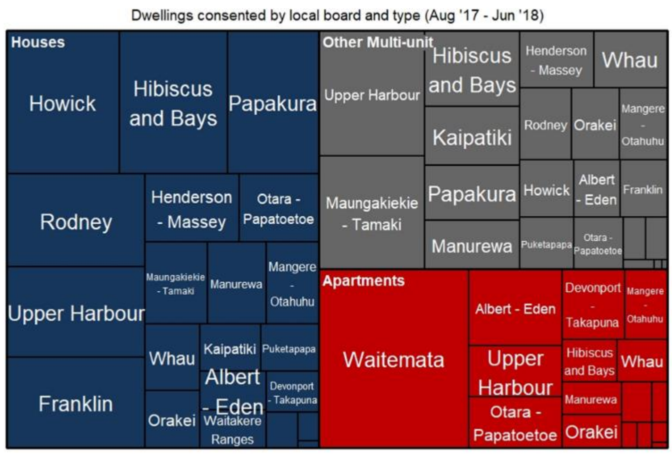
But how do we know this is the result of the UP? There's a lot of evidence to suggest it is:

- **Brownfield areas**, where the UP enabled most growth, **dominate consents growth**: 85% of all growth in new dwellings consented in the 11 months to June 2018 (since the uptick began in August 2017) is in brownfield areas where greater intensity has been allowed by the UP. i.e. the vast bulk of growth.
- **The trend toward more greenfield growth has been reversed**: The share of total new dwellings consented in these 11 months of growth has shot from 63% to 69% (remembering that the target of numerous Auckland planning documents is for around two-thirds of growth to be in brownfield areas), completely reversing a trend of declining brownfield development as a share of building consents over the previous seven years.



- **More intensive building typologies**, enabled by the UP, **are being adopted**: More intensive multi-unit (terraces and apartments) dwelling types were 53% of new dwellings consented in the 11 months to June 2018. In the 11 months to June 2016 (i.e. the comparator 11-month period before the UP was passed), it was just 37%.
- In the urban areas, **the desired compact city is emerging**: In the urban area (2016 definition) around 65% of new dwellings are multi-units, precisely what the UP aimed to deliver.

As the following chart shows, growth is widespread, but the mix is skewed toward multi-units, and is even more skewed toward these typologies in the local board areas closest to the city centre.

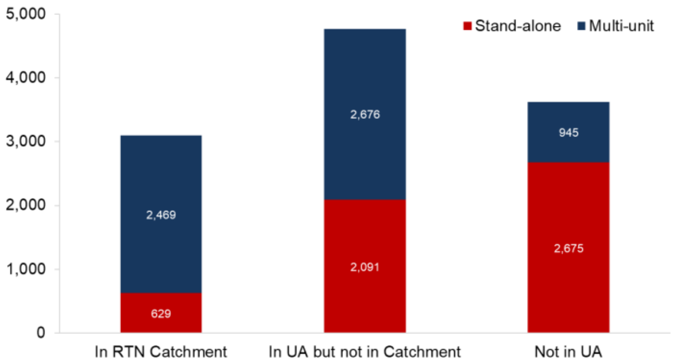


A preference for transit-oriented development

So the vast bulk of new development is in brownfield areas. But what about access to jobs and other amenities? A disproportionately large number of dwellings are being consented in catchment areas for the rapid transit network (RTN). i.e. people value rapid transit access, and development, enabled by the UP, is responding:

- Only 2.6% of Auckland's land area falls within a 1.5 km walk of an RTN node – a train station or northern busway stop. But 41% of all multi-unit developments consented in the last 11 months were in the RTN catchments. This share of multi-unit consents is 16 times higher than the RTN catchment's share of Auckland's land.
- 13% of stand-alone homes were consented in the RTN catchments, five times more than the RTN catchments' share of land area.
- 78% of all dwellings consented in RTN catchments in the last 11 months were multi-unit, helping to deliver the kind of densities we want around transport nodes.
- Overall, 40% of all dwellings consented in the 2016-defined urban area (UA) were in the RTN catchments, even though those catchments only account for 25% of Auckland's urban area.

Dwellings consented by type and area, 11 months to June 2018



Source: Chief Economist Unit, Auckland Council

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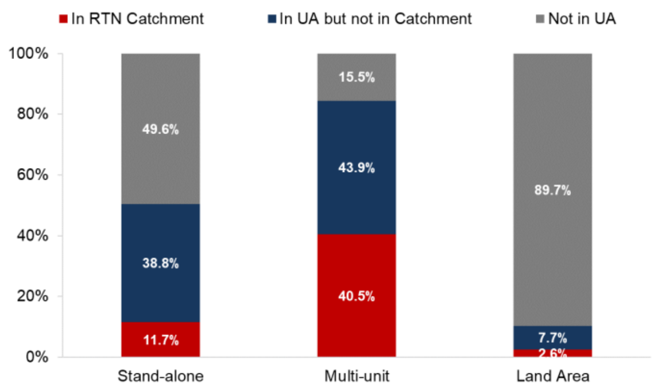

Source: Chief Economist Unit, Auckland Council

People want amenity

People want to live closer to their jobs, infrastructure that works, public transport, schools, swimming pools, shops and other amenities. As a result, developers have revealed a preference for delivering development in brownfield areas. This is a useful antidote to a theoretical view that relaxing development restrictions on the fringes of the region, where almost none of these amenities exist, is the best way to solve the housing crisis. Land on the fringes is certainly cheaper, but once we account for the value of infrastructure and geographic proximity to amenities, the market is displaying a strong preference for brownfield development. This is not economic theory; this is what we are observing in the real world of what is getting consented and built.

What makes this even more interesting is that despite what is currently a large infrastructure subsidy from general ratepayers and taxpayers to greenfield land owners, which keeps land prices in greenfield areas artificially low, brownfield areas are where the emerging development action is.

Auckland Economic Commentary

Harshal Chitale
Senior Economist, Chief Economist Unit

- Construction is now firmly established as the primary driver of Auckland's economy.
- General business confidence is down, particularly in the retail sector, and despite remaining strength in many indicators of economic performance.
- House prices remain flat and lower mortgage rates are likely to stay for a while – good news for first home buyers and developers.

Key economic trends

Auckland's population growth continues to be driven by net migration, which, although about 10 per cent off its peak about a year ago, remains strong, at 33,200 for the year ended June 2018. Including natural growth, this means Auckland added about 40,000 people to its population in the last 12 months.

Auckland's recent economic drivers such as retail and tourism have come off the boil. With house prices flattening over the last 12 months, people will think twice about getting that new car or TV.

Construction is now the resurgent engine of growth. Residential consents reached 12,400 for the year to June – a 19.3% increase from a year earlier.

But the even stronger performer has been ***non***-residential building, which was a whopping 64% higher for the year to June 2018 compared to a year earlier in terms of floor area consented. Auckland's CBD is undergoing a transformation, with several large commercial buildings, hotels, a convention centre and infrastructure projects on the horizon. But several of these projects were consented more than a year ago, which just goes to show the strength in non-residential sector; huge amounts of additional floor area are continuing to get consented now.

More astounding, and perhaps a partial antidote to the belief that business confidence surveys are an accurate indicator of wider economic conditions, 71% of the huge growth in non-residential consented floor area in the year to June was in private sector-dominated categories like shops, factories, storage buildings, hotels, and offices.

These facts are in stark contrast to reported confidence in the building sector, which softened in the June quarter according to NZIER's QSBO. The sector is facing cost and capacity pressures and is expecting a weakened pipeline of construction over the coming year, despite the flood of newly- consented projects.

There has also been a continued decline in general business confidence according to the QSBO, and it will be interesting to see if this translates into lower investment and hiring in the next few months.

Annual retail sales growth for the year to June was moderate - 3.8% in nominal terms or about 2.3% real. According to the QSBO, retailers are experiencing rising costs – possibly a reflection of the lift in the minimum wage. The regional fuel tax, introduced to help fund a range of transport projects to overcome congestion in Auckland, will also contribute to cost pressures. Some of this will get passed on in terms of higher prices, but retailers may struggle to pass on all the cost increases - which would be reflected in falling profit margins.

Annual guest nights, an indicator of tourism activity in Auckland were 2.1% lower in June 2018 compared to a year earlier. This is a significant reversal from the 2.3% growth in annual guest nights seen a year ago. While international guest nights increased 1.9%, domestic guest nights fell 5.4%. However, as we pointed out last quarter, the data does not include services like AirBnB, which may have increased their market share over this period. Still, with hotel room prices rising a further 9.6% in the year to April according to the TIA, hotel room prices may be approaching the maximum sustainable level without seeing a reduction in visitors, particularly from the domestic market.

Employment and wages

Auckland's unemployment rate decreased to 4.2% for the June quarter on the back of a small drop in the labour force participation rate. Some argue that this is close to the minimum rate of unemployment the economy can sustain.

Nominal wages in Auckland increased 3.2% for the year to June – a real wage increase of about 1.7%. Despite the reported lack of confidence in business conditions, hiring intentions remain strong and businesses continue to report shortages of both skilled and unskilled labour. Capacity utilisation, particularly in construction, is high. If net migration does start to fall significantly, these labour shortages could intensify.

Housing

The number of new Residential dwellings being consented is strong, and at nearly 12,400 for the year to June 2018, was the highest since January 2005. Consenting is getting closer to the number required to keep up with population growth (about 14,000).

Attached dwellings made up more than 50% of this number. An interesting trend is that in the 11 months to May 2018, 85 per cent of the ***growth*** in consents has been in existing urban areas, as we point out in the lead article in this Quarterly.

At $850,000, the median house price in June 2018 was almost the same as a year ago. Along with rising household incomes and flat to falling retail interest rates, this means houses are actually getting more affordable to purchase, although they are still less affordable than they were just before the GFC hit. However, rents increased 2.4% for the year to June 2018, thus continuing their trend of growth higher than the rate of inflation.

We still expect house prices to remain relatively steady, within a narrow band for the rest of the year for reasons discussed in a previous Quarterly. The shortfall of about 46,000 dwellings will likely keep a floor under house prices in the months ahead. The Reserve Bank has indicated that the OCR is unlikely to increase until late 2020, which means low mortgage rates are likely here to stay a while longer – some good news for anxious first home buyers as well as developers.

Data analyst
Ross Wilson - Analyst, RIMU

Indicator	Latest	Last quarter	12 months ago	5-year average	Rest of NZ latest
Employment indicators					
Annual employment growth (%pa)	4.4%	3.8%	4.2%	4.8%	3.3%
Unemployment rate (%)	4.2%	4.5%	4.5%	5.3%	4.5%
Unemployment rate among 20 to 24 year olds (%)	8.1%	9.3%	9.6%	10.0%	6.9%
Unemployment rate among 15 to 19 year olds (%)	20.5%	20.1%	18.7%	22.0%	19.7%
Earning and affordability indicators					
Annual nominal wage growth (%pa)	3.2%	4.0%	1.2%	2.1%	3.4%
Annual geometric mean rent growth (%pa)*	2.4%	4.2%	4.2%	3.9%	4.6%
Geometric mean rent to median household income ratio (%)*	27.8%	27.8%	28.2%	29.0%	26.5%
Annual median house price growth (%pa)*	-0.7%	-2.2%	3.1%	8.7%	5.7%
Mortgage serviceability ratio (relative to Dec-06)	-5.0%	-4.0%	-8.7%	-5.9%	NA
Construction					
Annual new residential building consents growth (%pa)	19.3%	1.9%	7.4%	18.3%	2.0%
Annual m2 non-residential building consent growth (%pa)	63.6%	15.0%	-25.8%	7.7%	3.1%
International connections					
Annual guest night growth (%pa)	-2.1%	-0.2%	2.3%	2.2%	3.5%
Annual net migration	33,169	34,448	36,650	29,242	31,826
Confidence					
Annual retail sales growth (%pa)	3.8%	3.8%	5.8%	6.2%	3.8%
Quarterly Survey of Business Opinion (net optimists)	-25.1%	-14.8%	15.4%	19.2%	-18.7%
Westpac Consumer Confidence*	109.4	109.4	113.5	115.7	108.6

*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. * Rest of New Zealand figures are for all of New Zealand including Auckland. Data is not seasonally-adjusted.*

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