It’s as simple as a CBD

- Our work into what Aucklanders value having in their neighbourhood and homes continues. Recent analysis has unearthed three things people value as reflected in house prices.
- People value development options, and there is now clear data to evidence this. Almost three years since the Unitary Plan was implemented, clear patterns are emerging of how much more value different types of zoning add to properties.
- People value things in short supply. Supply of leafy green suburbs is plentiful (which is a good thing), and thus don’t command a price premium. Suburbs we think of as wealthy, leafy green suburbs, are wealthy for reasons other than their big beautiful trees.
- People value living near jobs. This is yet another reason that the leafy green suburbs around Auckland’s CBD are among the most expensive in the country.

In recent years, the Chief Economist Unit has often focused on what’s driving housing prices in Auckland. We’ve looked at how upzoning and amenities improve property values. We’ve researched the value of special character areas, and the rapid transit network to people living in Auckland.

You don’t need an economist to tell you that big houses on big pieces of land in desirable school zones are expensive. But it is important to quantify how much different amenities affect property values. These findings allow us to examine various Council policies and measure their impacts on Auckland – so we get good value for ratepayer money.

Captain Obvious strikes again

Two years ago, the Chief Economist Unit found that properties that were upzoned – those that have more development potential under the Auckland Unitary Plan (AUP) than legacy plans – had higher values relative to those that were not upzoned. This was not surprising. What was noteworthy was how the upzoning premium varied around the city.
While there is a conceptual definition of brownfield and greenfield, there is no statutory definition of what land is currently in each category. As in previous papers, as a proxy, we consider areas that had already been developed by July 2016 (the nearest review point to the AUP becoming operative) as brownfield. The history of this analysis can be found here.

Now that the AUP has been operative for nearly three years, we ask whether properties with more permissive zoning have clearly higher values. The short answer is “yes”. We looked at the sale of residential properties with between 200 and 1,200 square metres of land inside brownfields1 areas of Auckland. We compare the price premium by size of land and zoning to a theoretical standard dwelling with no land.

**Post-AUP, sections up to about 650m2 in size, regardless of type of residential zoning, have about the same value. With sections of this size, there is not a lot of development opportunity, regardless of how it’s zoned.**

Above 650m2, Single House zoned land has the lowest premium once other factors associated with the zone, such as special character status, are removed as there is not much development potential.

We also see that the value of Mixed Housing Urban and Mixed Housing Suburban land starts to become differentiated, with the more permissive zoning having slightly more value.

Terrace Housing and Apartment Building (THAB) zoning allows for the greatest height and scale of development of all the residential zones – and thus, the most development opportunity. At 1,200 m2, it has a massive premium above and beyond Single House zoned land.

Finally, at any section size, sales of houses that are in Business zones have the largest land premium. These have maximum flexibility and can be used for both housing or business activities.

**Money doesn’t grow on (or because of) trees**

Our most surprising finding is that the amount of tree canopy in an area is not reflected in house prices, once other factors are accounted for. The wealthiest areas of Auckland have a lot of leafy, green suburbs, but even areas that have lots of industry like Rosebank, Penrose, and Mt. Wellington, have almost 10% of canopy cover.

In more modestly priced areas of Auckland, especially out west in places like Glen Eden, Sunnyvale, and Ranui, the canopy coverage is 20–25%, which is the same as in the “leafy-green” suburbs of Remuera, Parnell, Herne Bay, and Epsom.

We are privileged to live in a city that has a lot of green and as a result property values do not incorporate a premium for this. The “leafy-green” neighbourhoods are expensive because of the other amenities available there. These areas have desirable schools (the double-grammar zone has a house price premium of around 13%) and are close to jobs, for example.

**A short trip to bring home the bacon**

Which brings us neatly to the question of how being close to jobs is valued by Aucklanders. In the past, we’ve shown that people pay to live near the CBD. Of course, being near the CBD is only desirable because of what is in it. Almost 25% of Auckland’s jobs are in the 0.1% of Auckland’s land area made up of the CBD and its surrounding inner-ring neighbourhoods.

After accounting for job density, we find that distance to the CBD is no longer the best determinant of house prices as the explanatory power is taken up by job access. For every 1% increase in jobs within a two kilometre radius of a neighbourhood, house prices go up by 0.03%. This sounds small, but when we consider that neighbourhoods around the CBD have access to so many jobs, the premium in these places is 25% or more above where properties have average job access.

We’ve just shown that people place a lot of value on living near jobs. We also know that, so far, not enough houses are being built near where the jobs are. Going forward, we need to constantly reassess if enough housing is being developed near jobs and, if necessary, act to encourage this to happen. We also need to ensure that we continue to develop better public transport options for those moving to the areas where there are

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massive numbers of houses being built, but few job opportunities to avoid just adding these workers to our already busy roadways.

The more we know, the more we know

For every Auckland property sold, Council collects a range of data, including the location and size of the property, as well as the condition, age and other attributes of the dwelling. What's not included are neighbourhood amenities, any special restrictions or neighbourhood characteristics, and so on. The Chief Economist Unit (along with RIMU) has developed these additional datasets so we can better understand what people value (often reflected in house prices) and what that means for Auckland Council policy.

Recently, we've added two additional years of sales data as well as information about neighbourhoods, including the amount of tree canopy cover and employment options in neighbourhoods across Auckland.

As with our previous models, the estimates presented here are from a log-price hedonic model with time and location fixed effects, and robust clustered standard errors at the Census Area Unit and individual house level. Data on house sales from 2013-2018 was used and outliers were removed. To be included, the sale must have been an arms-length sale of a freehold property including land and a dwelling of at least 30 square metres.
Auckland Economic Commentary

Shyam Maharaj
Economist, Chief Economist Unit

- Growth in the Auckland economy has slowed in the face of challenges both locally and globally.
- But the overall picture is for moderate growth in Auckland, driven by domestic factors.
- In an unforeseen move, the RBNZ cut the OCR by 0.5%, setting the rate a historic low of 1%, but uncertainty remains on the flow on effect.
- House prices remain flat and rents are rising, but a mix of factors suggest the possibility of a rise in prices, especially as serviceability improves.
- The labour market is improving; Auckland unemployment is defying some expectations at 4.2%, along with wages gaining some traction.

Economic growth has not been stellar in the past two years, but it has held up well against a raft of challenges. Yes, we are increasingly sensitive to global events, but the emphasis will be on the resilience of domestic drivers at this point in the economic cycle. A large pipeline of construction work and rising professional services employment and revenues signals a relatively stable and resilient domestic economy.

Building consents and activity

The construction pipeline in both the residential and non-residential sectors continues to break new ground throughout Auckland. The level of work and the pace of growth is a strong sign that this sector will continue to build our economy. Annual residential dwelling consents in Auckland surged to a historical figure of 14,000 in June. In gross terms, we have been meeting the need for new housing of a still-growing population although in net terms, we are likely still playing catchup.

Auckland’s appetite for intensive development (THAB) has grown and signals significant changes in the mix of property development, with multi-units accounting for more than 50% of dwellings consented. The challenge remains encouraging a mix of typologies that meet intergenerational needs and a significant housing shortfall.

Non-residential building consents remain at an elevated level (even with major developments at Commercial Bay and Newmarket sliding out of the data) and are growing at a firm pace. The appetite for commercial buildings especially in the CBD is a positive indicator of the expanding role of professional services in Auckland.

However, industry capacity challenges remain and some major projects are missing their original deadlines.

OCR and Mortgage rates

In a surprise move, the Reserve Bank introduced a 0.5% Official Cash Rate (OCR) cut, taking the rate to 1%. This scale of cut is usually associated with a major negative shock to the economy, yet this is not the environment we are in today. The Reserve Bank appears to be trying to get ahead of mounting global risks: a worsening trade-war, rising share market volatility and central banks revisiting a path of lower interest rates. The Reserve Bank is willing to cut further, if needed.

It remains to be seen whether a cut of this magnitude will influence mortgage rates or business borrowing rates at scale with the hope it will stimulate economic growth and get inflation up to target levels. The responsiveness of fixed mortgage rates to date have been underwhelming.

Labour Market

The labour market remains resilient, giving some support to the RBNZ’s goals. Unemployment surprised most, falling to 4.2% in Auckland, especially against pessimistic business confidence. Data supporting a tighter labour market is an on-going mismatch with confidence surveys. But risks of contagious pessimism remain, which may affect real hiring and investment.

Real wages in Auckland rose by 2.6% (nominal 4.3%) over the last year, outstripping the rest of New Zealand. This is a positive sign for households and retail spending, with consumer confidence wavering on the back off pessimistic business confidence. On balance, as incomes and wealth rise, retail trade is likely to firm.

House prices

House prices remain flat. Seasonally adjusted REINZ median house prices continue to hover around $850,000. Notably, as mortgage rates fall and incomes rise, serviceability has improved markedly. The median house is more affordable to the median household than for five years. Nevertheless, prices at already elevated levels will restrict affordability for first home buyers.

Additionally, rents have risen 3.1% from June 2018 and yields are relatively low. But against a backdrop of global volatility, low interest rates, a firm labour market, improving serviceability and on-going shortfall in housing, prices are likely to experience flat to modest growth. These relatively solid domestic conditions will help insulate sectors like retail against a softening global outlook.

Auckland, as a consumer economy (rather than primarily a commodity-producer like other parts of New Zealand) and with a fast-growing population, is likely to remain relatively sheltered despite this global weakness.

Meanwhile, firmer house prices will further squeeze renters from getting on the property ladder.
Hospitality and retail
Retail trade remains stable despite business and consumer sentiment, at 4% year on year. This equates to around 2.2% in real terms, a steady result.
Although guest nights have been subdued of late, the recent data shows an encouraging uptick to record levels. Annual guest nights in Auckland grew by 2.8% in the year to June. Notably, this growth was driven by an increase in domestic guest nights of around 3.5% from the same time last year. This is an interesting reversal of recent trends where domestic tourists were heading to more affordable destinations in New Zealand.

Data summary provided by Ross Wilson - Analyst, RIMU

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<thead>
<tr>
<th>Indicator</th>
<th>Jun-19 quarter</th>
<th>Mar-19 quarter</th>
<th>Jun-18 quarter</th>
<th>5-year average</th>
<th>Rest of New Zealand</th>
<th>Jun-19 quarter</th>
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<td>Employment indicators</td>
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<tr>
<td>Annual employment growth (%pa)</td>
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<td>Unemployment rate (%)</td>
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<td>Unemployment rate among 20 to 24 year olds (%)</td>
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<td>Unemployment rate among 15 to 19 year olds (%)</td>
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<td>Annual nominal wage growth (%pa)</td>
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<td>Annual geometric mean rent growth (%pa)*</td>
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<td>Geometric mean rent to median household income ratio (%)*</td>
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<td>Annual median house price growth (%pa)*</td>
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<td>Mortgage serviceability ratio (relative to Dec-06)*</td>
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<td>Annual new dwellings consented growth (%pa)</td>
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<td>Annual m2 non-residential building consent growth (%pa)</td>
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<td>Annual guest night growth (%pa)</td>
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<td>Annual Auckland Airport passenger movements (%pa)</td>
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<td>Annual retail sales growth (%pa)</td>
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<td>Quarterly Survey of Business Opinion (net optimists)</td>
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<td>Westpac Consumer Confidence*</td>
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<td>109.4</td>
<td>111.6</td>
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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; Auckland Airport; 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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