

Insights

Topical commentary on the Auckland economy



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Location, ~~location~~, ~~location~~ size and quality

- Many things affect property values in more or less obvious ways.
- Obvious examples are the premium paid for waterfront properties or for larger houses over smaller ones. Of greater interest, however, is how much these attributes contribute to a home's value – while holding everything else equal.
- Less obvious attributes include location in the “double grammar” zone, which adds about \$130,000, and the “goldilocks” factor of location – being neither too close nor too far from certain other amenities.
- Other factors, such as cladding associated with the leaky homes era, lead to a discount in price.
- There are implications for local and central government policy from these findings.

A few months ago, the Chief Economist Unit published a [study on the impact of higher-density zoning](#) on housing prices in Auckland. To isolate the impact of increased zoning, we had to account for as many other attributes that add to or subtract from a

property's value. Though the purpose of that work was to look at how zoning affects property values, the models we developed yielded statistically significant results on how much values change due to other amenities of the property.

Size matters

The average dwelling sold in Auckland over the past eight years was approximately 135 square metres (including integrated garages). Across all of New Zealand, new homes tend to be significantly larger than older homes¹. Houses built in the 1970s were typically in the 110-120 square metre range. By 2010, new homes being built were approaching 200 square metres.

Our research unsurprisingly found that bigger homes sell for more money. Across the Auckland Region, each square metre adds approximately 0.3% to the value of a home. On the central Auckland isthmus², where there is no greenfield development, this corresponds to roughly \$4,200. Across all of the non-isthmus Auckland Region, each additional square metre adds about \$2,500.

¹ http://archive.stats.govt.nz/browse_for_stats/industry_sectors/Construction/building-bigger-5oct-16.aspx

² The isthmus is, for these purposes, defined as the area covered by the old Auckland City Council with the exception of Waiheke Island and Great Barrier Island. This is roughly the area from New Lynn to Otahuhu.

These figures are roughly consistent with the marginal cost to build an additional square metre.

On the isthmus, where almost everything is already built up, adding space often necessitates a renovation. Elsewhere in Auckland, where already built houses are competing with new build construction, the premium for extra space is lower. Adding extra space to a house that has not yet been built is cheaper per unit than renovation, and this is reflected in the prices.

Getting in the (school) zone

Anecdotally, “**everyone**” knows that houses in good school zones are worth more. What constitutes a good school is a value judgment, but as a proxy, income deciles are often used. This is not a perfect measure, and wealthy parents do not guarantee good students and good schools. However, achievement and school decile are correlated³.

Data on school deciles is readily available, so it was straightforward to include in our model of Auckland house prices. Because some homes are zoned to several different schools, we selected the highest decile in-zone school as representing the house’s “school zone”.

We found that across the entire Auckland Region, all else equal, a house in a decile 10 zone would be sold for around \$225,000 more than an identical house in a decile 1 zone. This pattern is consistent across the region. On average, each additional decile adds about \$22,500 to the price of a home.

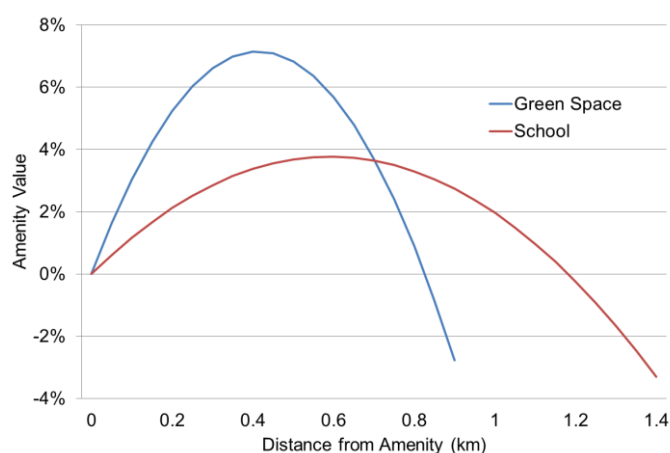
There’s also the issue of Auckland’s “double-grammar” zone – where houses are zoned for both Auckland Grammar and Epsom Girls Grammar. This was accounted for in addition to the decile, and all else equal, houses in this zone are worth an additional \$130,000 over and above houses that are not. All told, a home being located in the double-grammar school zone adds massive value compared to an otherwise *identical* home zoned for a decile 1 school.

The goldilocks of amenity access

Houses prices are also affected by how near they are to certain amenities. We structured our model so that an optimal distance from certain amenities could

be calculated. For many people, the ideal location to certain amenities is not too near, not too far, but just right. Take schools, for example. Schools are loud and subject to lots of car and foot traffic. Most people with children would like to be located a short walk from the school, but not right next door.

On the isthmus, properties located right next to either schools or green space are valued less than those located a short distance away. For these amenities, there is a “sweet spot” for value – not too close and not too far. Property values are maximised (all else held equal) 410 metres from green space, 590 metres from a school, and as close as possible to the coast (i.e., waterfront).



These findings have implications for local policy, such as park service provision, and for central government services such as school location.

In the rest of the Auckland Region, the optimal distance from any amenity is basically as close as possible. Of course, since it is possible to be much further from amenities in greater Auckland than on the isthmus, it makes sense that proximity is more valued. On the isthmus, no matter where a property is located, the maximum distance from a school is about a 20 minute walk. In the wider Auckland region, you can be more than 9km from a school.

Amenity	Maximum Distance (km)	
	Isthmus	Non-Isthmus
Green Space	0.67	2.71
Arterial Road	3.42	3.90
School	1.36	9.44
Coastal Area	5.49	15.09
CBD	13.72	70.63

³ <https://www.educationcounts.govt.nz/statistics/indicators/main/education-and-learning-outcomes/school-leavers-with-ncea-level-2-or-above>

House values that have sprung a leak

It is well known⁴ that potential buyers have avoided monolithically clad homes – even ones that are weather tight – because of the leaky homes scandal. Thus, it's not surprising that these homes have sold at a discount relative to other types of homes.

What is remarkable is that the stigma of monolithically clad homes still persists. Even though the extent of the leaky homes liability has become increasingly clear, many of these homes have been repaired, and testing is available to determine the water tightness of a home, monolithically clad homes have continued to sell at a discount.

Our research suggests that monolithically clad homes across all of Auckland, built in the 1990s or 2000s, still sell for about 15% less than similar homes that don't **look** like a "leaky home". Again, this does **not** mean that all these houses were actually leaky, or that they were unrepaired. It only means that monolithically clad houses built during this time period have a stigma about them regardless of the quality of construction.

Put another way, two identically sized houses on identically sized sections, next door to one another, would, on average, have a 15% price differential if one of them was monolithically clad. This is equivalent to about \$140,000 on an average house in Auckland.

Given the scale of this impact, and the challenge of preventing other examples of building system failure, the policy implication of this finding is clearly for better alignment of risk and responsibility, as we argued in our paper on [mandatory building warranties](#).

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⁴ For example: http://www.nzherald.co.nz/leaky-buildings/news/article.cfm?c_id=562&objectid=10507795 and http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10617051