Insights

Topical commentary on the Auckland economy

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Reality check – the impact of land zoning

- Recent coverage has focused on how land use zoning may affect property prices.
- Often, these analyses don't consider a number of factors, meaning they likely overestimate possible costs of regulation in Auckland.
- The progressive Unitary Plan, the difference between land supply and housing supply, and the costs of turning farm land into developed land are three factors that are often neglected.

Claims of how land use regulation, or land zoning, is impacting land values have received a lot of coverage recently.

There is little doubt that excessive land use regulation artificially raises the price of land. That's a fundamental of the demand and supply equation and is hard to deny. Councils, who set land use policy, should always consider whether they're being overly-restrictive with zoning, or any other policy for that matter.

But on at least three counts, recent coverage has failed to consider factors that hugely impact the conclusions reached.

One: 10 times the shortfall already zoned

The Auckland Unitary Plan, which became operative in large part in November 2016, rezoned huge swathes of Auckland. The Plan increased the number of dwellings that can be added to Auckland by between 420,000 and one million. The lower estimate is if you apply a strict financial feasibility test to all zoned land. The much higher figure represents all land physically able to be developed that has been zoned.

The Chief Economist Unit has estimated that the current shortfall of housing in Auckland is around 40,000 dwellings. This means that there is already between 10 and 25 times more land zoned for development or redevelopment than the existing shortfall. If we could snap our fingers and deliver those 40,000 dwellings today, we'd still have a mountain of land zoned for further development over the next 20 to 30 years.

A view that zoning more land than we have already zoned in the Unitary Plan would bring prices down sharply leaves a difficult question unanswered: *If having already zoned 10 to 25 times the current housing shortfall is not bringing land prices down sharply, **what will**?*

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There are a number of other factors that appear to be holding up property prices, driven by a slow increase in the supply of housing and unprecedented growth in demand. On the demand side, 140,000 more people have chosen to make Auckland home in three years. On the supply side, there are the challenges of industry capacity, tightened bank lending for multi-unit developments, and infrastructure capacity, to name a few.

Which brings us to our second point.

Two: Land supply is not housing supply

Some studies here and abroad appear to confuse ***land*** supply with ***housing*** supply. They're simply not the same thing. We could have 10 million sections available to build on in Auckland, and dwelling prices would still rise if the population was growing the way it is, and we were not building *housing* fast enough.

Yes, property price growth is captured mostly within the land component of the property value. *But it is the value of that property as a place at which housing is provided or is possible that gives it value*.

When the supply of *housing* is not growing as fast as demand, property prices will rise, regardless of how much land is available.

Three: A farm is not development-ready

A third way in which some analysis fails is through ignoring what makes one part of the city or region more attractive than others.

The argument in favour of freer zoning than even the Unitary Plan allows often compares distant farm land with suburbs nearer Auckland's CBD. It explains differences in land values away as the result of "overly restrictive zoning".

What this argument seems to ignore is twofold – the massive cost associated with infrastructure to turn that distant farm land into usable residential land, and the amenity that developed suburbs offer over farm land.

It ignores the fact that more distant green fields bulk infrastructure alone is likely to cost upwards of $140,000 per new housing unit on average, according to council's Future Urban Land Supply Strategy. Add in local infrastructure and you're unlikely to get much change from $200,000 per dwelling unit.

Ignoring the huge difference between land used for horticulture or dairy cows, and a house with running water, toilets that flush, and roads that get you where you need to go seems a fairly heroic position to take. Alternatively, the argument implies that the infrastructure costs for new dwellings should be borne by existing Auckland ratepayers rather than the developer of the new housing.

Secondly, the comparison of farm land with established urban areas ignores their other differences. For starters, green fields tend to be much further away. How much less valuable is a property likely to be when it is an hour's extra commute each way from a major job centre like the CBD? Then there's the other factors that add amenity value – distance to the water, school zone (worth hundreds of thousands on its own in some parts of Auckland), access to community facilities and public transport.

In summary, comparing the price of undeveloped farm land with developed residential land closer to the city is not a valid comparison.

Where to from here?

Any evaluation of the impact of zoning regulation would need to accurately consider all the cost inputs that go into developing land, including those council has often been expected to stump up "for free". Then, once the study accounts for other factors like proximity to the water, school zone, and distance to the CBD, we would begin to get a better picture of what, if any, cost there is from regulation through current zoning.

David Norman
Chief Economist