

TECHNICAL REPORT: POLICY OPTIONS FOR DELIVERING A QUALITY COMPACT CITY

MURRAY CAMERON

September 2011

THE
AUCKLAND
PLAN



Policy Options for Delivering a Quality Compact City

Introduction

The Auckland Council is committed to the development of Auckland as a quality, compact city as integral to its vision of enhancing the liveability of Auckland. This continues a long tradition in Auckland metropolitan planning. The conception of the 'compact city' model for Auckland began in 1951, when an urban fence was introduced by the Auckland Metropolitan Planning Organisation's *Outline Development Plan* to help 'reduce the overall cost of providing services and transport; make residential areas more livable, enjoyable and safe; promote convenience; help industry, commerce and business; protect investments; eliminate slum and blight areas; facilitate traffic and make the metropolitan area as a whole a better place to live'. It has evolved since that time, culminating in the more comprehensive policy package of the 1999 Auckland Regional Growth Strategy (ARGS), adopted by the eight councils of Auckland at that time. The Auckland Plan will replace the ARGS.

While there is ongoing debate internationally about the compact city model, it is increasingly being applied by cities internationally as an optimal model to progress environmental, economic and quality of life objectives¹. The OECD notes that 'land is a limited resource and should be carefully managed to both support economic activity and safeguard environmental resources'. As such, the way land is managed influences urban form, and can potentially contribute to a spatial layout that minimises congestion, increases productivity, the exchange of ideas, and raises the level of "attractiveness" of the area. The OECD notes further that 'a expanding model often enshrines an inefficient and non-economical rationale for infrastructure extension, elevating capital costs related to building more schools and extending roads, water and sewer lines and stormwater drainage systems'.

The Auckland 'compact city' policy

The compact city model can be characterised as comprising four essential policy elements:

- 1) Containment and consolidation of urban growth
- 2) Focusing urban growth in mixed use centres serviced by high frequency transit
- 3) High quality urban design
- 4) Improved transport choice, with an emphasis on improving transit and active modes

These policy mechanisms are intended to operate as a suite of mutually-reinforcing packages. They are, in effect, like a four legged policy stool. Poor performance of one of these policy mechanisms reduces the capacity of the entire policy suite to deliver the intended benefits of the compact city model.

Working together, this policy mix aims to provide greater housing choice, where people have the opportunity to live in well designed, medium to high rise housing, focused on centres which

¹ (OECD, 2010)

provide a range of social, cultural and economic amenities within walking distance of people's homes, and which are serviced by high quality transit.

Performance of the 'compact city' policy

1) Containment and consolidation of urban growth

Performance

Containment of Auckland's urban growth has been achieved by incorporating a Metropolitan Urban Limit (MUL) in the Auckland Regional Policy Statement (ARPS), consistent with the Auckland Regional Growth Strategy (ARGS) aim to accommodate 70% of new growth within the existing urban area. The purpose of the MUL is to promote orderly and efficient urban development, and safeguard the natural environment and countryside. It acts to limit premature expansion of urban development into the countryside, and promote efficient use of land, infrastructure, public facilities and services inside the MUL, provide certainty to the community, developers and infrastructure providers about where and when growth will occur, and also motivate investment in development and redevelopment of buildings and land in centres.

Managing urban growth successfully involves much more than releasing land. Well-designed growth areas require a comprehensive process of structure planning and District Plan changes in order to create liveable environments that incorporate consideration of timely and affordable infrastructure servicing, multi-modal transport provision, community aspirations for place-making, integrated catchment management, environmental protection, acquisition of open space and utility areas, and access to town centres. An urban growth boundary, such as the MUL, is widely used tool that is an integral part of this planning process for managing the growth of metropolitan areas.

Progress reporting on the implementation of the ARGS² identified that 74% of population growth occurred within the MUL (2001-2006), consistent with the ARGS goal, however population growth outside the MUL is increasing at a faster rate than inside. Housing affordability was acknowledged as a significant issue for Auckland, but as there are multiple contributing factors, a response that focused on adjusting a whole range of different factors, including local and central government policies, was seen to be more appropriate than focusing on a single factor such as the release of land outside the MUL.

Internationally, there is considerable debate about urban growth boundaries such as the MUL, and in particular assertions about their effects on housing affordability. The relationships between land use regulation, housing type, land and housing supply, and land and housing price, have been studied extensively in the international literature³. The overall findings from this body of research are inconclusive, and uncertainty exists over the size and type of any impacts.

² Auckland Regional Council (2007)

³ AHURI (2010)

This was confirmed by the Technical Advisory Group (TAG), appointed by the Minister for the Environment to advise on the effects of land regulation on housing affordability⁴. It reported that while there is evidence of a strong zoning boundary effect [of a MUL] on land prices, there are a number of other factors that influence land prices. The TAG noted that MULs are used effectively as a tool elsewhere in the world (eg. Melbourne and Portland) because they are one part of a broad suite of tools, including ongoing monitoring of land supply, and are kept under review, and this is central to their effective use.

Similarly, Motu reports⁵ that the use of a MUL can be useful as part of an optimal planning regime, and notes that the existence of unpriced externalities arising from unconstrained city expansion may create a role for such a growth limit. It concludes, however, that the growth limit should be subject to regular periodic review, to address the risk of its effects on housing affordability.

As in Melbourne and Portland, the Auckland MUL was never intended to be static, but to be extended periodically in a thoroughly considered manner as necessary to ensure there is sufficient capacity for growth and in a manner that ensured land was used efficiently and sequenced with suitable infrastructure. The Auckland MUL has been extended 8 times since commencing in 1999, releasing 1741 hectares of greenfield land for industrial, commercial and residential development, following requests from territorial authorities. By mid-June 2011, expansion of the MUL has amounted to about 145.1 hectares per year on average since 1999.

While the policy intent for the Auckland MUL is that it operates in tandem with other mutually-reinforcing policies such as promoting well-designed higher density development, particularly centres serviced by high frequency transit, in order to deliver the integrated growth concept in the ARGS, this has not always been understood by commentators.

Some commentators have highlighted growth boundaries as the single most influential factor in housing unaffordability, using median/average house price to median/average income ratios as indicators of housing affordability.⁶ However, the simplicity of this measure is precisely what limits its usefulness as it fails to take into account many of the factors that affect the affordability of housing.⁷ While the main factor not considered in this measure is interest rates, other factors include bank's lending practices, and the amounts of rates and repairs. A pertinent analysis of interest rate effects on house prices concludes that the structural lowering of interest rates almost fully explains the increase in house prices relative to income since 2000 in Australia and New Zealand, as these lower interest rates have been capitalised into house prices.⁸

Furthermore, peoples' strong preference for locating in (and paying more for) well serviced well-connected urban properties within the MUL as an explanation for the high price of land inside

⁴ Ministry for the Environment (2010)

⁵ Grimes (2007)

⁶ Demographia (2011)

⁷ New Zealand Treasury (2006)

⁸ ANZ (2010)

the MUL is not easily dismissed. Evidence that removing the MUL will reduce the high prices people pay for houses in these areas is not well documented.

As well as housing affordability, house price stability is also a relevant concern as homes comprise a large part of household assets for most families. Unconstrained urban growth tends to lead to boom-bust cycles that are more extreme than when urban growth is managed in a more orderly manner. The Metro planning agency in Portland considers its urban growth boundary has been a contributing factor in explaining the relative stability of house prices there compared with other US cities where house prices have significantly declined⁹.

Density can also play a part in influencing housing affordability.¹⁰ As urban land prices increase, the density of development increases, reducing the land price per person accommodated. Additionally, a higher density urban environment can improve housing affordability by increasing household income opportunities due to more accessible employment choices, and reducing infrastructure and transport costs per household.

Clearly, limited land supply will contribute to higher land and housing prices if there is insufficient capacity to enable a competitive market. The capacity for growth in Auckland has been reviewed every five years to ascertain whether there is sufficient development capacity. Although the Council considers the assessment to be a conservative assessment of development capacity, it is important for public confidence in the MUL as a beneficial tool for it to be widely seen as credible. Some commentators note that the assessed capacity does not take account of 'achievable capacity', and just because land is vacant does not mean that it is available for development. In some cases this may be because the owner does not want to sell (eg. landbanking), which constrains supply; in other cases the market may not find the available land attractive (or profitable) to development.

International Approaches

A review of international trends and lessons in growth management which examined metro-regions comparable to Auckland noted that many of the strategic growth documents had been operating for many years, and reviewed. A significant feature over time was that none had moved away from their chosen (compact or contained urban form) policy approach over time, but rather had focused on strengthening them and improving implementation effectiveness. A key feature of all international examples looked at was the emphasis on comprehensive approaches which applied a broad sweep of mutually-reinforcing policies. This continuity provides their communities and stakeholders with long term certainty, providing clear and consistent direction to the market and infrastructure providers, and making progress in delivering the goals of the strategy.¹¹

A recent Australian Productivity Commission performance benchmarking review¹² of the planning system highlighted the use of urban growth boundaries (or urban footprints) as leading

⁹ Metro (2010)

¹⁰ BERL (2010)

¹¹ Auckland Regional Growth Forum (2007)

¹² Productivity Commission (2011)

practice. It noted that these mechanisms are likely to improve planning processes through clarity and transparency in the development of land on the fringes, and have the potential to improve certainty in land supply processes.

Conclusion

In examining the debate over the MUL, and its effects on housing affordability, the key issue appears to be not so much about the appropriateness of the MUL itself as a tool to contribute towards managing urban form, and the efficient and effective functioning of the region. The key issue relates more to the implementation of the MUL.

The ability of Auckland Council to align regional and district policy enhances its ability to maintain an appropriate supply of development land within the MUL (enough to ensure 15 years development capacity). This is likely to be helpful in avoiding price increases inside the MUL due to supply shortages, and price increases outside the MUL due to highly frequent boundary changes which encourage property speculation on rural land on the urban periphery.

Alternative mechanisms for achieving containment include Urban Service Boundaries (limiting development to where water services are provided), Green Belts, or economic instruments. However, while the use of economic instruments would help to align the market with the environmental outcomes sought, relying solely on economic instruments would lack certainty of delivering the intended outcomes. Other methods are untried in New Zealand and would likely require a substantial amount of further investigation as to their usefulness and feasibility. Green Belts might require substantial changes to legislation to provide for a more prescriptive and interventionist approach to land use planning than is typically seen in rural planning in New Zealand.

Recommended Actions

For the MUL to operate as an effective tool, as part of a suite of complementary mutually reinforcing policy tools, it needs to be implemented in a way in which stakeholders have confidence. Accordingly, the following actions are recommended:

- a. Subject the 5 yearly capacity for growth reports to an independent peer review.
- b. Report annually on land supply for residential, commercial, industrial and agricultural land supply.
- c. Review and implement a housing affordability strategy.¹³
- d. Make appropriate changes to the MUL to maintain a supply of developable land to ensure a 20 year development capacity within the MUL, while encouraging the efficient use of land and safeguarding valued environmental resources.

¹³ Regional Growth Forum (2003)

2) Focusing urban growth in mixed use centres serviced by high frequency transit

Performance

The mechanisms for achieving high density centres (and selected corridors) has largely depended on the market, subject to existing District Plan provisions, with ongoing progress to change those provisions to enable higher density development. The type of growth intended for centres includes housing and high trip generating activities such as commercial activity (notably retail and office), which provide local jobs and services for the surrounding community, as well as improved transport choices.

The Growing Smarter report identified that residential development in identified growth centres increased from 14% in 2001 to 35% in 2005, although less new housing in centres and corridors than the previous five years (except for the CBD). Multi-unit development in high density centres and corridors increased from 18% in 2001 to 35% in 2006. More office activity located in centres and corridors in the 2001-2006 period than in the previous 10 years, with the CBD being a key attractor. A large proportion of existing capacity in commercial zones exists in centres. However, there has been considerable growth in out-of-centre retailing and office development, dispersed throughout the urban area rather than being centres-based, residential densities are still not well integrated with transit provision, and community facilities such as sports, health and education have not been occurring in growth centres. There is a need to achieve more comprehensive and higher density development in centres.

Conclusion

Good progress has been made in the early years of the ARGS, however a more concerted approach is needed to improve the implementation of this policy. A number of impediments have been identified which constrain progress with centres-focused intensification, and these need to be addressed.

Recommended Actions

- a. Establish a public education programme to champion the benefits of intensification, and demonstrating successful examples.
- b. Investigate and develop a package of incentives to achieve intensification in centres, and make it easier compared with out-of-centre development, including improved District Plan provisions, economic instruments, and undertaking facilitation through assisting with site location, land assembly and development partnerships.
- c. Provide better guidance to the development sector about development outcomes wanted in centres and corridors, and how to achieve them.

d. Ensure sufficient land supply in centres to accommodate the demand for commercial development.

e. Support facilitation initiatives with stronger adoption and enforcement of restrictions on out-of-centre retail and office development.

3) High quality urban design

Performance

High quality urban design has been promoted in Auckland's planning documents, and has been emphasised in the ARGs and RMA planning documents, supported by a range of design guides and Urban Design Panels, and the increasing employment of urban design specialists by Auckland councils to contribute to policy development, pre- and post-application design review of consent applications, and service delivery in the public realm. While there has been a marked improvement in urban design over the past decade, the results have been variable and considerable further improvement is needed. The 2010 Auckland local government restructuring has unfortunately hindered progress as it resulted in a considerable loss of urban designers employed by local government in Auckland, however the Auckland Council is endeavouring to recruit more. Growing Smarter identified a number of factors constraining the improvement of urban design.

Conclusion

There has been a marked improvement in urban design over the past decade, the results are variable and considerable further improvement is needed. A stronger line on urban design needs to be adopted. Design that is inappropriate in its context, or which fails to take opportunities available for improving the character and quality of an area and the way it functions, should not be accepted.

Recommended Actions

See Compact City workstream report

4) Improved transport choice, with an emphasis on improving transit and active modes

The Auckland Regional Land Transport Strategy establishes the planning for transport to support an efficient and compact city. A compact city has the potential to deliver a wide range of benefits, but to achieve these it needs to incorporate the four policy strands listed above. Improved transit is key to making a compact city work efficiently and effectively. With population growth, and traffic growth, the topographically constrained Auckland faces unacceptable social, cultural, economic, and environmental costs that will degrade its liveability unless it completes a transit service which provides resilience to the transport system, attracts people away from

driving to free up roads for freight to boost the growing economy, improves the environment through reduced car dependency, and reduces the time and cost burden on households by enabling people to live a full life without having to own a car.

With Auckland rail transit reaching the limits of its capacity, the Inner City Rail Loop is a high priority investment which will unleash significant development and economic opportunities, enhance agglomeration effects, and unlock many of the constraints on the wider network. It would be a step change that enriches both Auckland, and the whole country.

Conclusion

Auckland needs to be given the opportunity to fund the Inner City Rail Loop in a manner which does not impose an excessive burden on future generations in the light of the uncertain global economic environment. New Zealand petrol is cheap by world standards, with a low excise tax compared with other OECD countries including Australia. The reinstatement of the regional petrol tax option is a simple, cost-effective measure for Auckland and would provide a significant funding stream that would free up road space for business, improve productivity rather than having workers stuck in traffic, enhance tourism, and yet be a minor incremental charge on road users which would partially address underpriced congestion. It could be enhanced as a funding stream by complementing with other incremental funding sources such as network charges and/or congestion charges.

Recommended Actions

See Infrastructure workstream report.

References

Auckland Regional Council (2007), *Growing Smarter*

Auckland Regional Growth Forum (2003), *Auckland Regional Affordable Housing Strategy*

Auckland Regional Growth Forum (2007), *International Trends and Lessons in Growth Management*

AHURI (Australian Housing and Urban Research Institute) (2010), *Planning reform, land release and the supply of housing*

ANZ Economics and Market Research (2010), *Australian Housing Update*

BERL (Business & Economic Research Ltd) (2010), K Sanderson, *Housing Affordability and Urban Density*

Demographia (2011), *7th Annual Demographia International Housing Affordability Survey*

Grimes, Arthur and Yun Liang (2007), "Spatial Determinants of Land Prices in Auckland: Does the Metropolitan Urban limit Have and Effect", *Motu Working Paper 07-09*

Metro (2010), *Urban Growth Report 2009-2010*

Ministry for the Environment (2010), *Building Competitive Cities: Reform of the urban and infrastructure planning system - A technical working paper*

New Zealand Treasury (2006), *Affordability of Housing: Concepts, Measurement and Evidence*

OECD (2010), *Trends in Urbanisation and Urban Policies in OECD Countries: What Lessons for China?*

Productivity Commission (Canberra) (2011), *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessment*