Insights
Topical commentary on the Auckland economy

October 2017

How the Unitary Plan adds value to properties

- The Auckland Unitary Plan has allowed thousands more property owners across the city to more densely develop their land through zoning changes (“upzoning”), increasing the potential number of dwellings on the land.
- Closer to the city centre, upzoning tends to add value. The amount of value added varies by suburb and by the density of the development allowed. For the most part, areas that are more densely zoned have higher upzoning premiums than those that are less densely zoned.
- Timing matters. Property values in different areas of the city rose at different times during the multi-year rezoning review. Some areas identified for increased density in the first draft of the plan showed earlier signs of a premium. Areas not targeted in early versions of the plan but that were later upzoned, gained value later.

Does upzoning – the council policy allowing more development on the same land – increase the value of properties? Now that Auckland Council has adopted the Unitary Plan (UP) that has increased development potential, it’s both possible and prudent to evaluate how and when this zoning change has affected the value of properties.

Using residential property sale data, we find that upzoning has indeed resulted in real, measurable, and significant gains in housing values.

We also observe a relationship between rezoning announcements and the increase in value. Though early drafts of the UP were not legally binding, they sent signals to the market that affected prices in targeted areas. Knowing this provides food for thought as to the market implications of announcing changes in zoning policy.

Auckland Council
Te Kaunihera o Tāmaki Makaurau

When and where we upzoned

When Auckland Council was formed in 2010, it was required, by law, to replace the Regional Policy Statement and 13 different district and regional plans with a UP. A Draft UP was released for public consultation in early 2013, and in late 2013, the Proposed Auckland Unitary Plan (PAUP) was made available to the public.

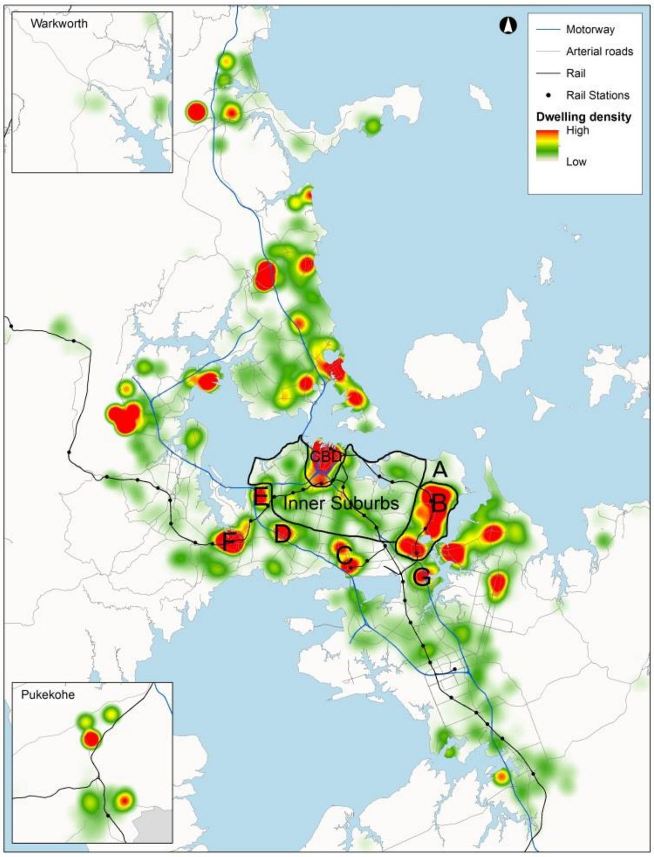
Over the next two years, the Independent Hearings Panel conducted hearings to discuss the plan and released recommendations in July 2016. In July and August 2016, Auckland Council released the findings of the Panel as well as the final version of the UP, which incorporated many of the Panel recommendations. This version became operative in November 2016, pending the results of any outstanding appeals.

In each iteration, the proposed zoning in Auckland changed. However, some areas were targeted across iterations. From the very first draft of the UP, New Lynn, Onehunga, Glen Innes, Botany, Papatoetoe, Pakuranga, and Takapuna were targeted with some of the highest density zoning.

By the final version of the UP, these areas had all retained their dense upzoning, but vast swathes of the city had joined them. These included Mt. Roskill, Henderson, Te Atatu Peninsula, Westgate, Hobsonville, Howick, and a few other areas scattered around the city.

Geographically, Glen Innes, Mt. Wellington, Onehunga, Mt. Roskill, and Pt. Chevalier form a ring of zoning “hot spots” around the CBD (areas B through E on the map). Between the CBD and these zoning hot spots lies the less densely upzoned inner suburbs. With the exception of a small portion of Mt. Albert, parts of Newmarket, and along the main thoroughfares, these areas did not receive the densest upzoning and continue to provide most of the single-house zoning on the isthmus.

One surprising feature of the map showing the most intense areas of upzoning is the limited extent of upzoning around rail stations and main bus thoroughfares. These are the most logical places for getting large numbers of workers to and from jobs in the city and to the south.

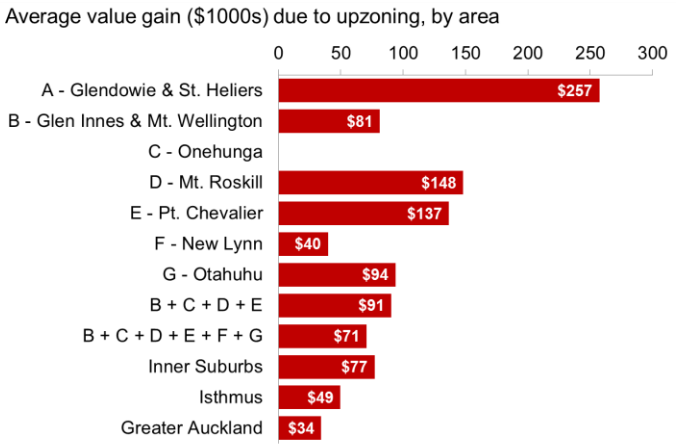


Not surprisingly, the properties in areas that were strongly upzoned by-and-large saw substantial increases in value. These are high-demand areas with good public transport access, so the ability to more densely develop a property has a high market value.

How much value upzoning has added

Our results show that in the most densely upzoned areas of the Auckland isthmus (Glen Innes, Mt. Wellington, Onehunga, Mt. Roskill, and Pt. Chevalier – areas B, C, D, and E on the map), upzoned properties sold on average for a premium of more than $90,000 when compared to neighbouring properties that were not upzoned, controlling for all of the observable attributes of the property as well as the strong overall price changes Auckland experienced over this period.

Of course, the upzoning premium varies by suburb. In Onehunga (C), in 2016, the upzoning premium was not statistically significant (though likely still positive, there were not enough sales to say for sure), whereas in the area from Glen Innes to Mt. Wellington (B), the premium was about $80,000. In Pt. Chevalier (E), the premium was more than $135,000; and in the densely upzoned area near Mt. Roskill and Sandringham (D), the premium was almost $150,000.



Next, we turn our attention to the less densely upzoned inner suburbs. Even though these areas did not receive the densest upzoning and continue to make up most of the single-house zoning on the isthmus, an upzoning premium can be seen. The premium for upzoned properties in the inner suburbs is about $77,000.

Looking at the entire isthmus, the average upzoning premium was approximately $50,000. Outside of the isthmus, the areas where upzoning added value to properties were New Lynn and Otahuhu – places that are directly adjacent to the isthmus. In all areas further away, the upzoning premium was neither positive nor negative, with the exception of Botany, which had a premium in 2016 of about $60,000.

Finally, when considering all properties in greater Auckland, using all observations from 2013-2016, we found that, *on average*, upzoning adds a little over $34,000 to the value of a property. The message is clear: *upzoning added more value to properties closer to the CBD (and closer to work opportunities) than it did to properties further away*.

Timing matters

The data clearly shows that housing markets were affected by the *anticipated* rezoning activity throughout the timeline of the UP outlined above. Taken as a whole, upzoning premiums were realized as early as 2013 on the isthmus, with the average premium increasing through time from $23,000 to $49,000 as awareness of and greater certainty of the scale of upzoning became apparent.

On a more granular level, premiums in New Lynn (area F on the map) were seen immediately after the PAUP was released. Properties sold in 2013 saw an upzoning premium of approximately $40,000. This amount remained fairly consistent each year thereafter.

In the area around Mt. Roskill and Sandringham (area D), upzoning premiums were first detectable in 2014, and increased massively from $56,000 in 2014 to almost $150,000 in 2016.

In each of these cases, it's likely that the market responded favourably as the extent and location of upzoning became clearer.

Similarly Botany, although further afield, was clearly identified for intensification early on, and saw a surge in value for upzoned properties early.

Meanwhile, Glendowie and St. Heliers (Area A), were added to the upzoning plans far later in the process. As a result, the uplift there occurred only in 2016. But it is also the area where the uplift has been largest – around $260,000 per upzoned property. Even though this area did not receive the highest housing intensity designation, the change from single house to mixed-use urban or mixed-use suburban (late in the process) significantly boosted the value of upzoned properties.

In fact, it may be the relative scarcity of upzoned properties in Area A (compared to Area B for example, which had huge swathes of upzoning) that has driven the size of the premium for upzoned properties in Area A.

Implications for infrastructure and policy

The most significant implication of this study is that upzoning – that is, the policy of allowing more flexible development – increases the value of upzoned properties. This means owners of upzoned properties receive a significant windfall gain from the change in zoning. This value gain is predicated on the expectation that further development will be possible on these sections, and that the infrastructure will be in place to support those new dwellings.

As we have pointed out before, there is a strong case for a targeted rate on these upzoned properties to fund the infrastructure needed in these areas to make sure the taps run and the toilets flush, and that there are buses to ferry the new residents to work once the housing is in place.

The timing of the land value increases also has policy implications. We now have evidence that markets in Auckland react to announcements of policy changes rather than waiting until policies are enacted. That is, when council signals that a policy change is being considered, and the market believes that signal to be credible, prices react. This means that council must consider how it plans to fund new policies (through various mechanisms, including targeted rates), not only before the policies are enacted, but before they are *announced*.

How we did it

To determine the value of upzoning a property, we used four years of housing data. Data includes information about the sale (price, date) and the property (when it was built, parcel size, dwelling size, garage spaces, views, decks, construction material and so on).

We then merged this data with information on zoning before and after the implementation of the UP, as well as the distance of the property from various amenities (green space, main roads, schools, coast, and CBD), which created a profile of each property sold between 2013 and 2016. In all, we were able to successfully profile almost 110,000 residential property sales. We did not include properties in the CBD as these are not comparable to properties elsewhere in Auckland.

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