



Our capacity for housing growth

A principled approach to weighing up the benefits and costs of our options



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Summary

- Councils will be required to enable capacity for housing to help improve affordability and align capacity with demand
- Auckland has choices over where and how capacity is enabled
- Decisions taken will shape how Auckland grows and influence its productivity and liveability
- Those decisions can be informed by an assessment of the benefits and costs of different options

Auckland has some decisions to make in response to the government’s recently announced Going for Housing Growth programme. While some details are pending, the direction is clear. Firstly, councils will be set a Housing Growth Target to enable commercially feasible capacity for new homes at all times equal to, or greater than, 30 years of demand under a high population projection. Other directives relate to how this is to be achieved.

- ‘Intensification in the right places’ – higher density housing is to be permitted around town centres, rapid transit stations and transport corridors, and generally in line with services at a location. Councils can propose exemptions, for example, to maintain neighbourhood character, but must show evidence of benefit and that forgone capacity is being offset.
- A council can opt out of the required Medium Density Residential Standards (MDRS) that mandate a minimum height of three stories if it can show how its Housing Growth Target will still be achieved.
- Mixed-use activities of small-to-mid-scale, such as retail, restaurants, metro supermarkets and offices, are to be permitted in higher demand areas.

- ‘Enabling greenfield growth’ – a defined rural-urban boundary for future urban expansion will no longer be permitted in planning documents.
- The abolition of minimum floor area and balcony requirements for apartments and other dwellings.

The aim is to increase competition in urban land markets and improve housing affordability by increasing the supply of land for housing. Let’s look at how this could be relevant to Auckland.

Housing affordability remains a concern

Auckland has made important gains in housing since the Auckland Unitary Plan – our planning rulebook – became operative in 2016. It added capacity via more flexible land use rules to cater for growth and provide for more choice. More homes per site became possible in many areas.

Research has found that the Unitary Plan resulted in 22,000 more homes being consented from 2016 to 2021, representing a 4% boost to the housing stock. Rents have been lower than they would have been otherwise. A recent [Insights Paper](#) surveys the emerging literature on these and other effects of the Unitary Plan.

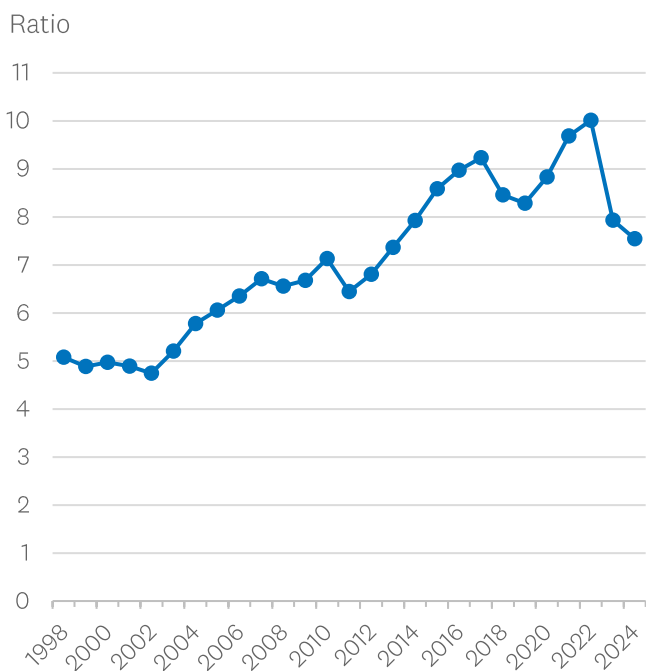
House prices remain expensive relative to incomes in Auckland. Over time, strong demand for housing has interacted with land use policies that were insufficiently flexible for the housing supply to respond. The median house price is still 7 to 8 times the median household income, even after recent improvement as Figure 1 shows. Other versions of this measure tell a similar story. If the price-to-income ratio was 5, as in 2000, the median price would be approximately \$680,000 instead of \$1 million.

This reduced affordability adds financial stress, reduces choice, hinders ownership, and drives away young people. It affects our productivity as more resources get tied up in housing and people are further from what they need.

Our experience with the Unitary Plan has shown that adding capacity for housing through more flexible land use can lead to more new homes. In turn, an increase in supply can improve affordability. The question is whether Auckland may benefit from further increases in capacity.

While assessments have found Auckland’s capacity for housing growth appears greater than expected demand for new homes at a regional level, caution is needed. Uncertainty exists over the extent to which owners of land will be willing to sell or develop sites identified as having capacity for more homes. Stronger demand for housing under a higher population growth scenario is also possible. In this context of uncertainty and reduced housing affordability, it seems prudent to consider the potential benefits and costs of additional capacity.

Figure 1: Auckland house price to household income ratio



Sources: REINZ median monthly sales price over year to June; Stats NZ median household income (HLFS) for year to June; Chief Economist Unit chart

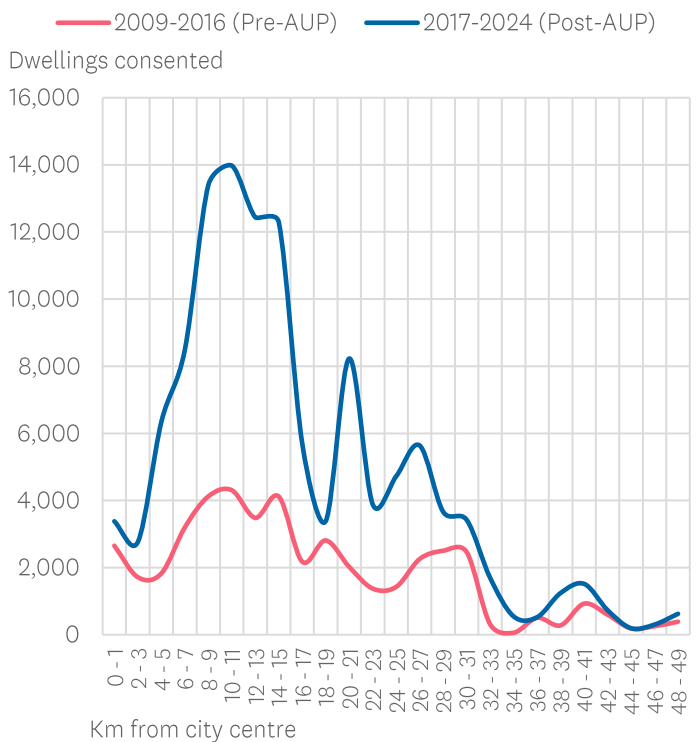
Patterns of demand and recent growth

There is evidence that our capacity for housing growth may not be as aligned with demand as it could be. More central locations tend to be in higher demand for their proximity to jobs, transport, and amenities. Higher land values are a sign of that demand as more people seek those locations to access the things they need. Allowing more homes in high demand areas enables more people to benefit from those amenities and for multi-dwelling buildings to share the cost of land.

Figure 2 shows the pattern of residential growth based on consented dwellings by distance from the city centre. Under the Unitary Plan, growth has been proportionately less dispersed while involving a much larger quantity of new homes. For instance, 51% of dwellings consented from 2017 to 2024 were within 14 km of the city centre, up from 46% in the prior seven years. However, the lower numbers of consents in the most central areas point to capacity for growth being constrained there.

This high-level approach does not factor in enabled capacity or the pattern of demand across locations. That said, the comparison does suggest the pattern of housing growth has been more dispersed than if land use settings had been more flexible in high-demand central areas. In turn, that implies fewer location choices for housing, longer travel times, and higher costs for council services.

Figure 2: Distribution of residential growth



Sources: Auckland Council Chief Economist Unit

Some implications and some choices

Giving effect to the government’s direction for housing capacity will involve changes to land use rules within the Unitary Plan. Auckland’s built form and pattern of growth will evolve differently, with implications for housing market outcomes, travel times, infrastructure networks, the natural environment, and productivity.

Details on infrastructure policy are yet to be confirmed by the government. Councils finance infrastructure – water, stormwater, roads, and parks – by borrowing and then charging developers as homes are built. As the pattern of growth becomes more market-led, the principle of ‘growth pays for growth’ will be crucial for efficiency and fairness. Councils will need to be better enabled to signal a price for that infrastructure and to set charges so that those who trigger and benefit from investment pay their fair share.

Importantly, Auckland has choices in how it responds to the directives to enable more capacity and meets its Housing Growth Target. Those choices include:

- opting out of MDRS and enabling more capacity for housing in more targeted ways
- the extent to which exemptions to intensification are proposed and how that forgone capacity is offset elsewhere
- exceeding the Housing Growth Target, depending on the potential benefits and costs.

Principles for weighing our options

Given these choices, there will be more than one way to fulfil the government directives and meet the Housing Growth Target. These decisions sit with our elected members and will impact Auckland for years to come. The following principles can ensure that decision making is well informed by analysis and advice.

1. **Optionality** – providing more than one option to allow for a comparison of impacts and support well-informed decision making.
2. **Completeness** – going beyond demonstrating how options comply with government directives to also identify all of the major impacts on Auckland.
3. **Trade-offs** – weighing up the major impacts of each option – the benefits and costs – to inform a view on the net impact of each option on Auckland.

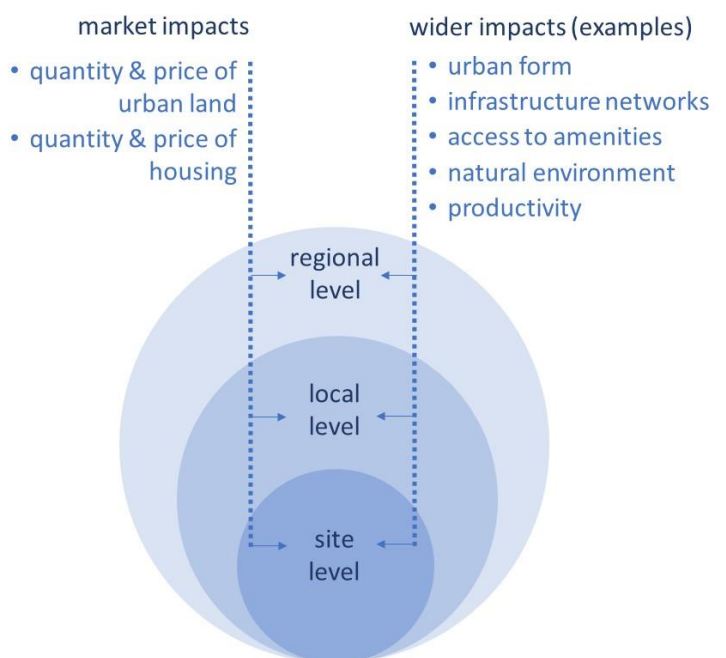
Figure 3 offers a framework for considering the impacts of policy options for how urban land may be used. It differentiates between market and wider impacts.

- Market impacts relate to land and housing markets, including how land values are influenced by land use policies and how changes affect the quantity of housing supplied and the price of housing.
- Wider impacts are those that tend to flow from the above market effects and relate to the urban form and how the pattern of growth affects infrastructure networks, access to amenities and travel times, the natural environment and climate, and productivity.

The framework acknowledges these impacts occur at a site, local neighbourhood, and regional level. Considering these different levels can assist with analysis.

The potential impacts can be described, including the extent to which they involve costs, benefits or both, their timing and distribution. Some are more readily quantified and put into monetary terms. This allows for materiality and uncertainty to be compared across options, to inform a view on net benefit, on balance.

Figure 3: Framework to assess land use policy options



Concluding remarks

The issues of housing affordability and alignment of capacity for growth with demand remain relevant for Auckland. Upcoming decisions on where and how to increase our capacity for housing will shape Auckland and its overall liveability for the coming decades. It will be important for these decisions to be informed by analysis that weighs up all potential benefits and costs.

Economic commentary

A look at the economic context and near-term outlook

Gary Blick
Chief Economist

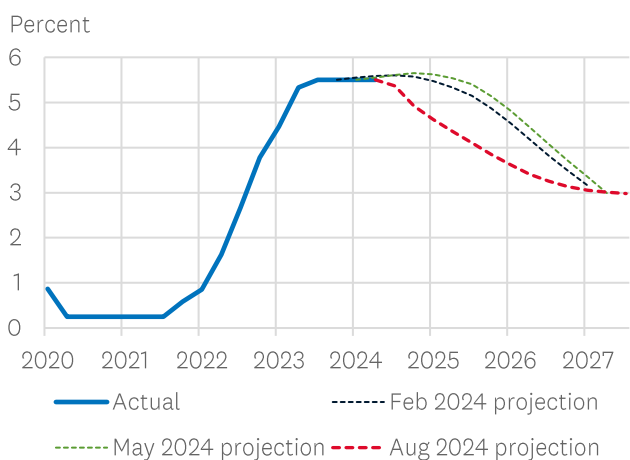
James Stewart
Economist

The Reserve Bank cut the Official Cash Rate (OCR) on 14 August by 25 basis points to 5.25%, the first cut since March 2020 at the onset of the pandemic. The revised outlook, shown in Figure 1, indicates a faster easing path with a series of cuts over the next two years to 3.00%.

This steeper decline in the forward track is in response to data showing weaker demand and increased slack in the economy, as well as the Reserve Bank’s increased confidence in headline inflation – at 3.3% in the June quarter – reaching the target band of 1-3% in late 2024.

Commercial banks have been adjusting down lending rates. As leveraged households fix their mortgages, most will be at lower rates that require less of their income to finance. The revised outlook will likely be welcomed by Auckland retailers, as gradual reductions in mortgage rates eventually translate into increased spending.

Figure 1: Official Cash Rate and outlook



Source: RBNZ data, Chief Economist Unit chart

Consumer spending

Households continue to restrain spending in response to higher mortgage rates. Auckland retail sales were down 1.6% in the June quarter 2024 over the March quarter, on a seasonally adjusted basis. For the year to June 2024, retail sales in Auckland were down 3.7% in real terms compared with 4.4% for the rest of the country. These falls are the largest since 2009 and reflect the Reserve Bank’s intent to dampen demand and reduce inflation. Spending is likely to remain subdued in the near term, given lags in mortgages being refixed to lower rates.

Labour market

The unemployment rate for Auckland at the end of June was 4.6%, up from 3.6% in June 2023, with an estimated additional 11,000 people unemployed. These rates have largely tracked the national unemployment rate. The reduction in consumer demand is a factor, as is an increase in the number of people in the labour force following a period of strong population growth.

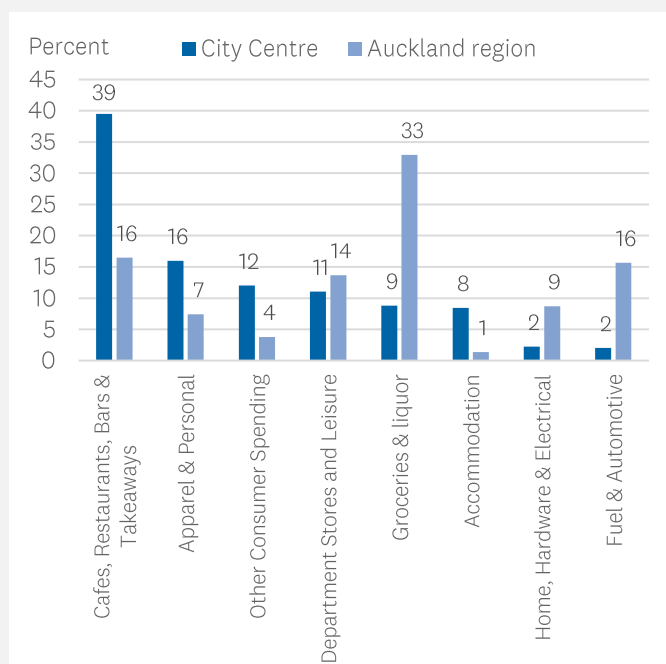
City centre update

Retail spending in the city centre was down 11% in June compared to the same month last year, while the overall fall for the region was 3%. This difference may reflect the city centre’s offering being more weighted to hospitality services (such as restaurants, accommodation) and less to consumable goods (groceries, fuel). Figure 2 shows recent shares of spending by store type. It shows the city centre is more exposed to reductions in discretionary spending as households adjust to higher interest rates.

A decrease in out-of-region visitor spending is a likely contributing factor, with guest nights in Auckland down 9% in June compared to the previous year. This decrease is consistent with reduced discretionary spending.

City centre pedestrian counts in June were down 14% compared to June last year, reflecting the decrease in guest nights and changes in resident behaviour.

Figure 2: Retail spending by store type and location



Source: MarketView data; Chief Economist Unit chart; note data is a snapshot of year to October 2023

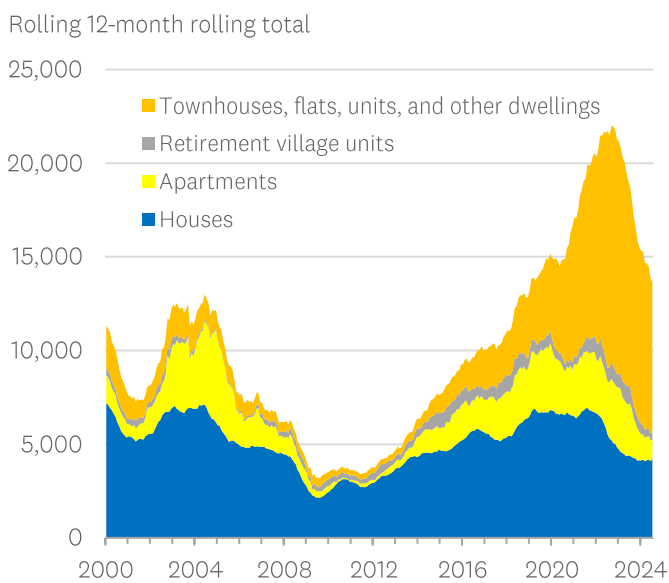
Residential building consents

There were 1,290 new dwellings consented in Auckland in July, down 13% on July last year (1,480). From an annual perspective, 13,850 dwellings were consented in the year to July 2024, down 27% on the prior year. The downward trend from the peak in late 2022 reflects the effects of higher interest rates, as the cost of finance and lower house prices weigh on development feasibility.

Townhouses still account for the majority, being 60% of new homes consented in the year to July. Townhouses overtook standalone dwellings as the dominant type of new housing in Auckland in late 2020 and have held that title since. This type of home allows for a more efficient use of land per dwelling than standalone houses and the sale prices tend to be lower as a result.

Apartment consents accounted for 9% in the year to July compared with 18% previously. This housing typology involves a larger number of units and tends to be more sensitive to changes in demand.

Figure 3: New dwellings consented by type

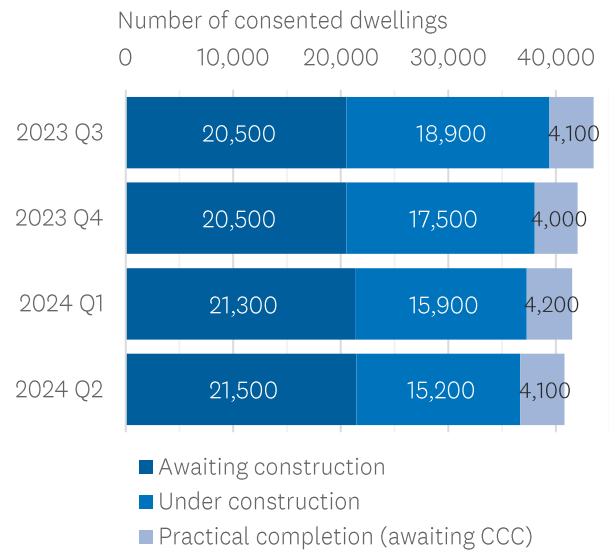


Source: Stats NZ data, Chief Economist Unit chart

While the 12-month rolling total has trended down since late 2022, the number of new homes consented is still similar to that seen in 2018 and 2019. That level is relatively high in an historical context as Figure 3 shows.

Auckland's housing pipeline comprises a large number of consented dwellings. Figure 4 shows there were 15,200 dwellings under construction as at June 2024 with a further 21,500 not yet at construction stage. With the first cut in the OCR in August and further cuts signalled, some developers may opt to progress or revisit these consents in anticipation of increased demand.

Figure 4: Quarterly snapshots of the housing pipeline



Source: Auckland Council Chief Economist Unit

House prices

The Auckland median house sale price dropped by 4% year-on-year for the year ended July 2024, according to REINZ sales data. The median sale price for Auckland was \$950,000 in July, down from \$990,000 in the same month last year. This movement in house prices reflects household's unwillingness or inability to take on debt while interest rates are still relatively high. There is potential for modest house price growth over the next 12 months as lending rates ease.

Rental market

The median rent in Auckland increased by 3% in the year to June to \$660 per week, up from \$640. Active residential bonds in Auckland increased by 1.7% over the same period to 154,900. That is a slowing of the rent price growth that occurred following the removal of pandemic restrictions and strong net migration gains in the year to June 2023. Over the year to June 2023, rents had increased by 7.6% and active bonds increased by 6.4%.

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