

2024

1st Quarter



More new homes, improved affordability



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Summary

- Auckland has upcoming decisions that will affect how much capacity is available for new homes
- Auckland’s Unitary Plan shows how increases to capacity by allowing for density can affect the quantity and price of housing
- There is strong evidence that one-third of dwellings consented over 2016 to 2021 were a result of the upzoning of the Unitary Plan
- Rents and house prices in Auckland have been on a lower growth path than New Zealand as a whole
- Adding more capacity could improve housing affordability

Decisions on our capacity for housing

Auckland has some upcoming decisions that will affect the amount of capacity available for new homes. The decisions relate to the Auckland Unitary Plan which sets the rules for how we use our land.

- Auckland Council’s response to government directives to allow higher density around town centres and rapid transit stations and medium density elsewhere, known as Plan Change 78, is before a hearings panel. The incoming government intends to allow councils to opt out of the medium density component and so Auckland may have a choice – to proceed with the current plan to add more capacity, to opt out, or to do it differently.
- Unitary Plan rules in relation to natural hazard risk are being reviewed in the wake of the flooding and land slips in 2023. If there are good reasons to forgo some residential use in high-risk locations, that raises a question of whether to offset any reduction in capacity by adding more elsewhere.

- A full review of the Unitary Plan is required to begin by 2026. It will involve decisions about our capacity for new homes, through intensification in the existing urban area and in greenfield locations.

These decisions, to be taken by Elected Members, will determine how Auckland grows. A key consideration is whether changes to our capacity for new homes can affect the amount and affordability of housing overall.

Fortunately, we have insights into this from the effects of the Unitary Plan, which increased our capacity by ‘upzoning’ or permitting more density across much of Auckland’s residential land.

Record numbers of consents for new homes

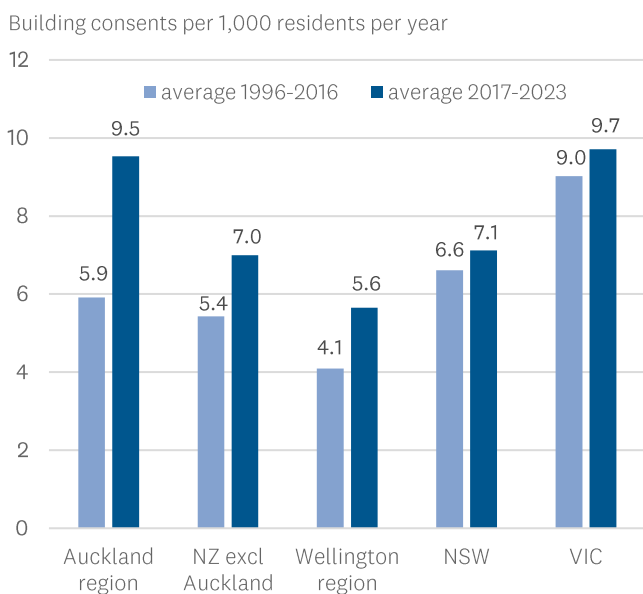
Auckland has seen a surge in building consents for new dwellings since the Unitary Plan became live in late 2016. Annual numbers of consents had not previously peaked at much more than 12,000 in a year. Since then, new records have been set annually from nearly 13,000 in 2018 to 21,000 consents in 2022.

This increase has been driven by new townhouses in existing urban locations that were upzoned to allow for more density, as households trade-off space to locate closer to employment, transport and amenities.

The uplift remains material after adjusting for growth in population over time. Consents for new dwellings in Auckland have risen from an average of 5.9 per 1,000 residents from 1996 to 2016, to 9.5 consents per 1,000 residents from 2017 to 2023. This suggests the housing supply has been able to respond to increased demand for housing from population growth and from the lower interest rates over 2020 to 2022.

Figure 1 shows the response from Auckland’s housing supply since the Unitary Plan has been stronger than the rest of the country, where the average rate of consents per 1,000 residents rose from 5.4 to 7.0. The equivalent rate for the Wellington region rose from 4.1 to 5.6. Placing this in a wider context, Auckland has surpassed New South Wales and matched Victoria.

Figure 1: Consents for new dwellings per 1,000 residents



Sources: Stats NZ; Australian Bureau of Statistics

More new housing than otherwise

Importantly, there is strong evidence that the Unitary Plan has led to more new homes in Auckland than would otherwise have been the case.¹

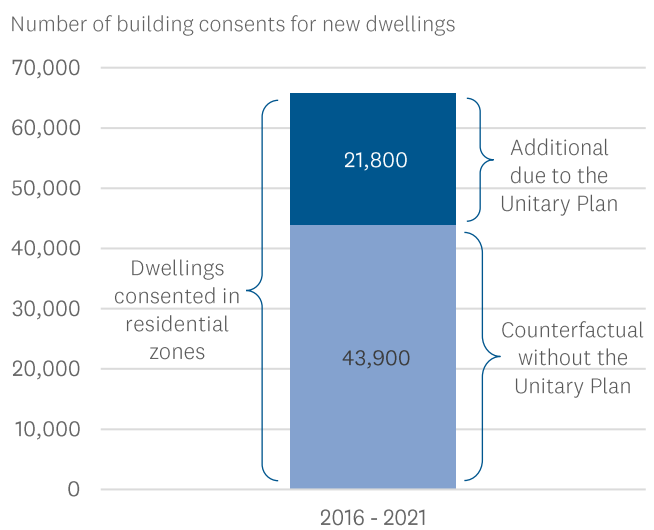
Research from the University of Auckland has found that 21,800 new dwellings consented between 2016 and 2021 were a direct result of the upzoning of the Unitary Plan and would not have occurred in its absence.²

¹ For a survey of the emerging literature on Auckland, see the accompanying [Insights Paper](#)

That research, by Professors Ryan Greenaway-McGrevy and Peter Phillips, appears in a respected journal. It estimates a ‘counterfactual’ scenario by comparing consents in locations that were upzoned with those that were not, before and after the zoning change.

Put in context, the additional 21,800 dwellings equates to one-third of the 65,700 dwellings consented in residential zones over 2016 to 2021. That implies Auckland would have had 43,900 dwellings over that period without the upzoning. In other words, the 65,700 dwellings consented represent an increase of 50% over that counterfactual. This finding – similar to fingerprints on a smoking gun – points to the Unitary Plan as being significantly responsible for the surge in new homes.

Figure 2: New dwellings as a result of the Unitary Plan



Sources: additionality from Greenaway-McGrevy & Phillips (2023); total consents calculated by the Chief Economist Unit

Reduced development cost per dwelling

More homes can be supplied because developers face a lower cost of development, enabling them to profitably meet more demand for housing. Costs fall in three ways:

- Less land per dwelling – an increase in potential density allows for multi-unit developments that use less land for each new home. Land is typically the costliest component of new dwellings.
- More competition – an increase in development opportunities adds to competition among land owners, reducing their market power, so that the land cost per new home is lower than otherwise.
- Economies of scale – the increase in potential density also enables cost efficiencies through all stages, e.g. design, consenting and construction.

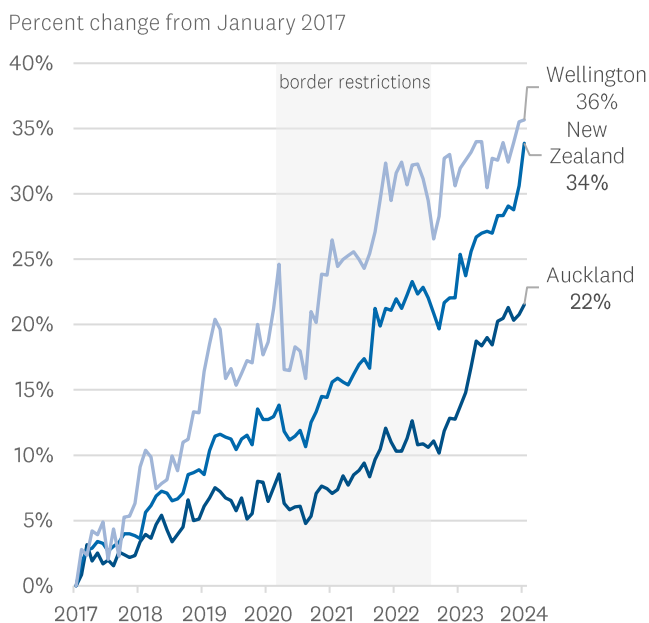
² Ryan Greenaway-McGrevy, Peter C.B. Phillips, “The impact of upzoning on housing construction in Auckland”, *Journal of Urban Economics*, Volume 136, 2023

More housing helps improve affordability

More new homes being supplied can be expected to help improve housing affordability. Consistent with this, rents and house prices in Auckland have been on a lower growth path than New Zealand as a whole.

Figure 3 shows that rents in Auckland increased by 22% between 2017 and 2024 compared with 34% nationally and 36% in the Wellington region. Moreover, research across urban areas concludes that upzoning improved affordability. It finds rents for three-bedroom homes in Auckland were 26% to 33% lower six years after the Unitary Plan than they otherwise would have been.³

Figure 3: Change in rental prices, 2017 to 2024



Source: Stats NZ Rent Price Index series

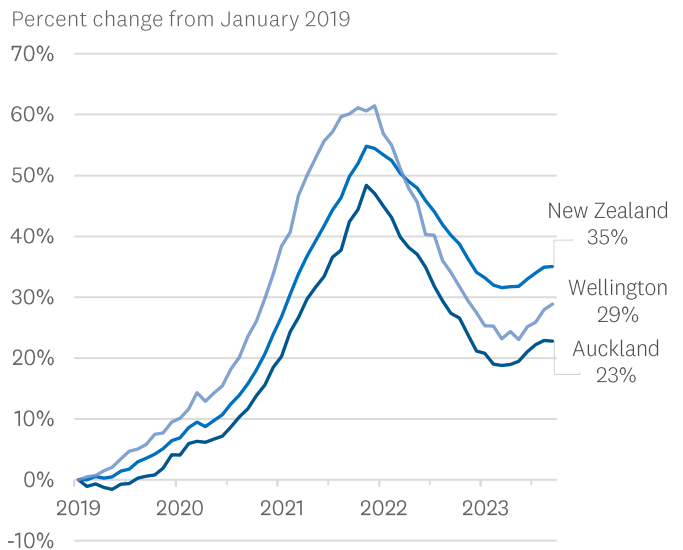
House prices are sensitive to changes in interest rates that affect how much households can afford to borrow. However, as Figure 4 shows, the rise in house prices in Auckland after March 2020 was lower than for New Zealand as a whole and that in the Wellington region.

This points to Auckland’s housing supply having been more responsive to demand, with more new dwellings consented since the Unitary Plan has been in place.

That picture fits with research that finds that upzoning can lead to house prices being lower than otherwise. Using a model fitted to Auckland, the research found the increased housing supply from the upzoning of the Unitary Plan would equate to a long-run reduction in house prices of 23% to 39%, relative to no upzoning.⁴

³ Ryan Greenaway-McGrevy, “Can Zoning Reform Reduce Housing Costs? Evidence from Rents in Auckland”, University of Auckland Economic Policy Centre working paper 16, 2023

Figure 4: Change in house prices, 2019 to 2023



Sources: REINZ house price index; RBNZ FSR Nov-2023

Implications for our housing capacity

Auckland’s experience shows how land use policy affects the quantity and price of housing. The key insight is that upzoning can lead to more homes and better affordability.

So, if increasing housing capacity has helped, would we benefit from adding more? Assessments have found that Auckland can physically accommodate demand for housing over 30 years. However, affordability remains challenging, despite recent gains, with the median price being 8 times the median household income. So rather than physical capacity, perhaps it is more a question of having enough capacity to really improve affordability.

More capacity could help reduce the cost of developing housing. Enabling more density increases competition among land owners by bringing many more opportunities into play and so lowering the land cost per dwelling.

Development in greenfield areas at the urban fringe is also part of the mix, as long as costly new infrastructure can be priced and charged to those that benefit. We also need to recognise that choice matters: while some households choose to locate further out, many more prefer to locate closer to jobs and amenities. In turn, that higher demand supports multi-unit housing types.

Auckland has a rich evidence base to inform decisions on our capacity for housing. If improving affordability is a goal, then we need to give serious consideration to increasing our capacity for new homes. In the next issue, we will look at the trade-offs involved and what a principled approach to weighing them could look like.

⁴ Ryan Greenaway-McGrevy, “Evaluating the Long-Run Effects of Zoning Reform on Urban Development”, University of Auckland Economic Policy Centre working paper 13, 2023

Economic Commentary

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Summary

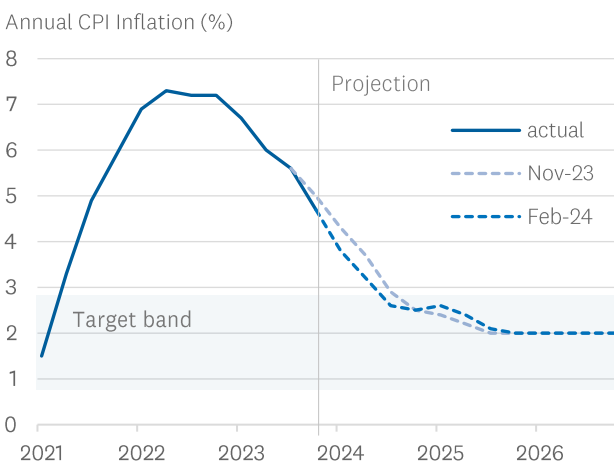
- Economic activity contracting as higher interest rates dampen demand
- Progress being made in reducing inflation
- Conditions to remain challenging through 2024
- Some housing projects paused until conditions improve

Gross Domestic Product (GDP) contracted by 0.1% in the December 2023 quarter – the fourth fall out of the last five quarters. Annually, GDP was down 0.3% on December 2022. Some reduction in economy activity is to be expected, as higher interest rates dampen demand. Those rates are underpinned by the Official Cash Rate (OCR), set at 5.5% by the Reserve Bank with the aim of bringing down annual inflation.

Some progress has been made. Annual Consumer Price Index (CPI) inflation was 4.7% in the December 2023 quarter, down from 5.6%. Much of the reduction came via the international channel with milder reductions among domestic components. Record migration gains, nationally and for Auckland, have helped ease labour pressures and private sector wage growth appears to have peaked.

The Reserve Bank held the OCR at 5.5% on 28 February, noting that higher interest rates are dampening inflation. Figure 1 shows the Reserve Bank’s updated forecast is for annual CPI to fall with the target band of 1-3% in late 2024. Any cuts in the OCR may not come until 2025. That implies conditions are likely to remain challenging for many Auckland households and businesses through 2024.

Figure 1: Annual CPI inflation and outlook

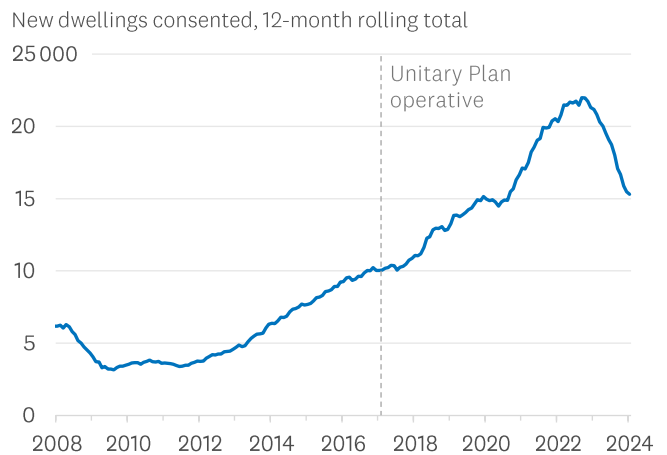


Source: Stats NZ; RBNZ projection MPS Feb-2024

Housing market cooled by high interest rates

The Auckland median house price hovered around \$1.050 million in the December 2023 quarter. As of February 2024, the median price was \$1.000 million, down 23% from the peak of \$1.300 million in late 2021. Building consent numbers continue to fall, as higher finance costs and lower house prices weigh on development decisions. As of January 2024, the annual number of new dwellings consented was 15,300, as Figure 2 shows. While that is down from the record of nearly 22,000 in late 2022, it remains a sizeable number compared with recent history.

Figure 2: Annual number of new dwellings consented

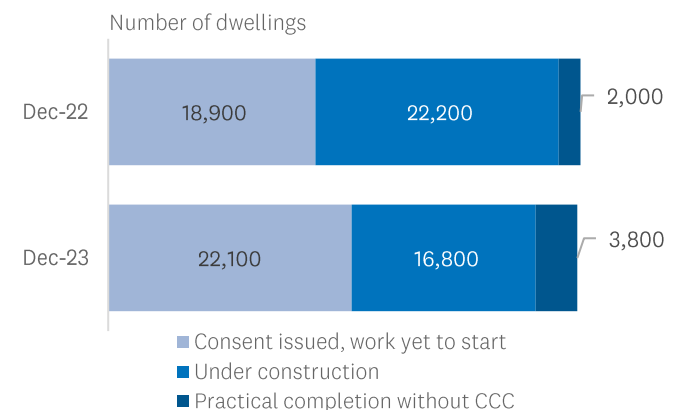


Source: Stats NZ; Auckland Council, Chief Economist Unit

A sizeable housing pipeline remains

A snapshot of Auckland’s housing pipeline reveals 16,800 dwellings under construction as of December 2023. Figure 3 shows that while fewer homes were at the build stage compared with the previous year, the number of consented dwellings awaiting construction had risen. Industry feedback confirms some consented projects are on hold as higher interest rates and lower sale prices affect feasibility in the near term. Some of these projects may proceed when conditions improve. A forthcoming Insights Paper will examine this pipeline in more detail.

Figure 3: Consented dwellings in the housing pipeline



Source: Auckland Council, Chief Economist Unit

Economic indicators

A selection of indicators showing change in activity and prices in the December 2023 quarter relative to the September 2023 quarter (quarterly change) and relative to the December 2022 quarter (annual change). Data is not seasonally adjusted unless stated.

Indicator Dec-23 quarter	Auckland		New Zealand	
	change from Sep-23 quarter	change from Dec-22 quarter	change from Sep-23 quarter	change from Dec-22 quarter
Economic				
Retail sales (seasonally adjusted) ¹	-1.2%	+0.9%	-1.5%	-0.3%
Number of people employed ¹	+1.0%	+3.6%	+1.1%	+2.4%
Unemployment rate (level) ¹	4.2% up from 4.0%	4.2% up from 3.5%	3.9% up from 3.8%	3.9% up from 3.3%
Jobseeker Support recipient growth ²	+3.5%	+9.3%	+4.6%	+7.0%
Housing prices				
Rent Price Index change ¹	+0.2%	+7.1%	+1.8%	+7.0%
Median house price change ³	+2.2%	-15.2%	-2.4%	-12.6%
Residential construction				
New residential building consents issued ¹	-16.7%	-32.8%	-6.8%	-27.1%
New dwellings completed ⁴	-30.0%	+31.6%	N/A	N/A
Median days from consent to completion ⁴	479	475	N/A	N/A
Transport				
Public transport usage (trips) ⁵	-4.1%	+22.3%	N/A	N/A
Rapid transit usage (trips) ⁵	-1.0%	+19.5%	N/A	N/A
Vehicle registrations ⁶	+47.6%	+22.6%	+30.8%	+4.2%

Sources: ¹Stats NZ; ²Ministry of Social Development; ³REINZ; ⁴Chief Economist Unit, Auckland Council; ⁵Auckland Transport; ⁶NZTA

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