



Home Economics is a new ASB report dedicated to in-depth analysis of the New Zealand housing market.

Our third issue of Home Economics looks at the impact of land use regulations on house prices in the Auckland market. We look at how these have contributed to Auckland's housing supply shortage and driven house prices up, and explore the potential impacts of the proposed Unitary Plan and Resource Management Act 1991 reforms currently in the pipeline.

### Summary

In our previous issue, we compared Auckland's increasingly expensive housing market with other cities. The cities with high house prices were characterised by restrictive land use regulations, which limited the supply of land for housing. Following a similar trend, Auckland's land use regulations have been acknowledged in several studies as overly restrictive. The [Demographia International Housing Affordability Survey 2016](#) reported that the world's "severely unaffordable" housing markets, such as Auckland, all have strong land use regulations, particularly with urban containment. Auckland's restrictions include both urban containment policies (such as the Metropolitan Urban Limit) and development policies (such as minimum lot sizes).

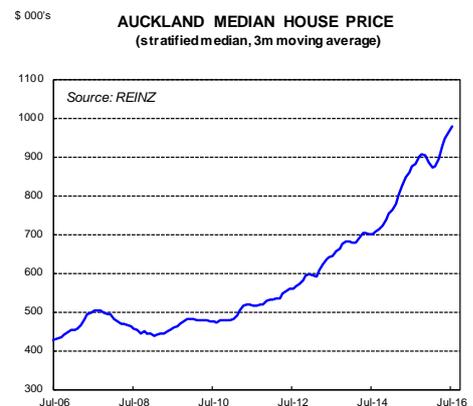
These regulations have effectively reduced the development capacity of land in Auckland and created an inflexible planning process. In particular, the impact is felt heavily by developers, as regulations delay the consent process and drive up development costs. As a result, the supply response to a rapidly growing population has been sluggish, contributing to rising land and house prices in the city.

With Auckland Council's decision on the Unitary Plan due August 19th, as well as the Resource Management Act 1991 (RMA) currently undergoing reform, Auckland will soon have new land freed up for development and new land use regulations. Despite this, the new rules will not drastically reduce the level of regulation, and in turn the impact on housing supply and prices may not be dramatic.

### Highly regulated and highly priced

Globally, there has been strong correlation between strict land use regulations and high house prices. In highly-regulated cities, such as Boston and London, median house prices are almost double what they are in lightly regulated places like Texas. Similarly, Auckland falls into the category of strict land use regulations and high house prices relative to incomes.

Two major issues are that strict regulations reduce the development capacity of land and create an inflexible planning process. This leads to a supply shortage, which is a key driver of higher prices. Land just within Auckland's current urban boundary is ten times more expensive than the land just outside it, highlighting just how tight the constraints on the market are. In turn, this has contributed to pushing land and house prices to new record highs, with the Auckland stratified median house price sitting at \$996,550 as at July 2016.



### Reduced development capacity

#### Hampering the supply response

Strict land use regulations reduce the development capacity of land, by restricting what a developer can design and build. If there is less developable area, this results in fewer units/dwellings and hampers the market's ability to respond adequately to increased demand for housing.

In Auckland's highly-regulated environment, a [survey conducted by MOTU](#) in 2015 found that current regulations reduce the development capacity of land by an estimated average of 22%, when comparing proposed plans with final consented plans. For example, view shaft regulations are often problematic for apartments. An apartment complex may not be able to build the maximum storeys allowed in its zone, if it would compromise a public view.

Development capacity is also reduced by the Council's more subjective requirements. The regulations require urban design considerations to be taken into account. However, these are somewhat open to interpretation by the Council's urban designers, as there are no hard and fast rules. For example, urban designers may choose to limit the number of rear sections or change the mix of unit types in an apartment complex. The reworked plans may result in less development capacity on development sites than are theoretically permissible, and the changes may not necessarily align with market demand.

Even with the proposed Unitary Plan, Auckland will remain a highly-regulated city with restricted development capacity.

Therefore, despite the Rural Urban Boundary (RUB) replacing the Metropolitan Urban Limit to free up new land for development, this land may not be as “productive” as it could be, if losses in development capacity remain in the future.

### Cost-benefit analysis

Furthermore, the [Productivity Commission](#) has noted that there is insufficient cost-benefit analysis to prove the rationale behind some regulations. For example, heritage building protection is costly to maintain and prevents increases in housing stock. From a cost-benefit perspective, the Productivity Commission recommends keeping heritage protection to a minimum level, for specific structures with high, genuine and significant historical/cultural value.

Some regulations also cover issues that may be better addressed under national regulations. A proposed provision to increase minimum apartment sizes under the new Unitary Plan responds to concerns around ventilation, natural light and noise insulation. However, these concerns could potentially be targeted under the Building Code instead, as they are relevant to all apartments around the country, not just those in Auckland.

## Inflexible planning process

### Current response

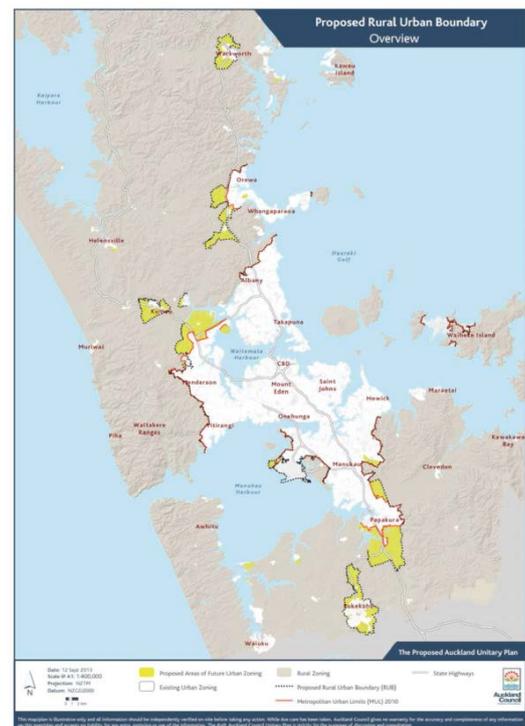
Land use regulations can also create an inflexible planning process. Recently, we have seen ad hoc legislation introduced temporarily as a quick-fix where current planning processes are too slow. The Housing Accords and Special Housing Areas Act 2013 (HASHAA) was enacted to fast-track development of affordable homes, and will have staggered repeal between 2016 and 2018. However, reactive legislation, like HASHAA, is not a permanent solution. Enacting more flexible planning processes to start with would help housing supply respond better to demand pressures.

### Fixed scope until 2041

Under the proposed Unitary Plan’s RUB and containment policies, planning will still be relatively inflexible. The RUB earmarks a fixed amount of land as the maximum scope for development until 2041. This is a permanent limit outlined in the Unitary Plan’s regional policy statement. Planning is characterised by time-driven land releases, fixed in advance for certainty under the Future Urban Land Supply Strategy (FULSS), rather than responding to changes in demand. Although there is some flexibility through annual review, the FULSS still constrains the speed at which land is made available.

Highlighting this inflexible planning process, the [Independent Hearings Panel recommended](#) to the Council on July 22nd that the RUB’s location be outlined in the district plan, instead of the regional policy statement. Under the regional policy statement, the RUB’s location can only be changed by Council or a Minister. In contrast, under the district plan, the RUB would be a flexible and responsive limit, open to relocation by private plan changes.

Without a more responsive planning process, it will remain difficult to get an adequate supply response to address Auckland’s current housing shortage. The Independent Hearings Panel has recommended that the Council expand the RUB by 30%, given the shortfall between its proposed capacity of 296,000 additional dwellings and expected residential demand for 400,000 additional dwellings.



### Nationwide changes

At a national level, the RMA is being reformed via the Resource Legislation Amendment Bill 2015, to streamline the planning process. The changes aim to facilitate faster, more responsive plans through two new planning processes, monitoring requirements and intervention by the Governor-General or Environment Court where necessary.

However, the Bill is still in its early form. Given that there are several Parliamentary stages to follow the Select Committee’s report due on September 6th, the reforms will not become law for some time and their final form is not clear yet.

## Developer’s pain points

### Disincentives to development

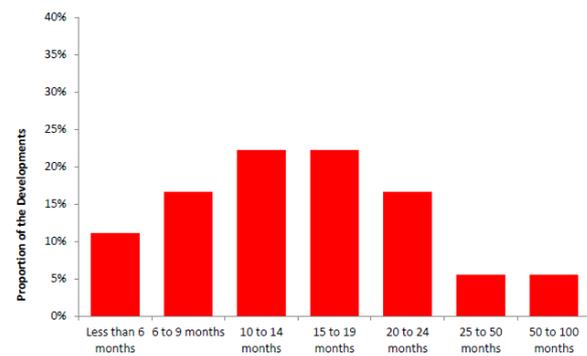
To combat the supply shortage, the Independent Hearings Panel recommends that Auckland needs densification. This emphasises the significant role that developers have to play, given that density is achieved through new subdivisions and apartment complexes. With existing regulations disincentivising them from development and driving up their costs, it is important that the new regulations do not do the same.

### Lengthy consent process

The current process of obtaining consent is often dragged out, creating uncertainty and risk for developers. In a highly-regulated city like Auckland, lengthy delays can arise from the back-and-forth dialogue between councils and developers over compliance with the regulations.

MOTU's survey found that in Auckland, the average timeframe between initial planning consultations with councils and getting all consents is 18 months, with 4-6 months attributable to council-related delays. The RMA reforms seek to streamline the process, but we will not see these changes take effect until they come into force.

Figure 2: Development Timeframes from Initiation of the Planning Consultation with Council to Granting of the Consent to Allow Civil Work to Commence



Source: MOTU 2015

### High development costs

Furthermore, the cost of complying with regulations influences the total costs of development. New or stricter regulations can push up costs, putting pressure on the commercial viability of development projects. For example, there is a proposed regulation in the Unitary Plan to increase the minimum floor-to-ceiling heights in apartments, but higher stud ceilings cost more to build.

MOTU's survey found that where the regulations constrained building activity, compliance added up to an estimated \$60,000 per home or \$110,000 per apartment to development costs. Combined with reduced development capacity and an inflexible planning process, regulations that unreasonably add to development costs risk hampering the market's supply response.

### Summary and next steps

Regulation has a big influence on a city's ability to cope with growth and the affordability of housing. Generally, the tighter the regulations, the higher the house prices are in a growing city. For Auckland, in some cases there is little cost-benefit analysis as a rationale behind current regulations. Even the interpretation of regulations can restrict building activity, compared to what is theoretically possible. A lack of flexibility in how land is freed up can impact the supply response of new housing. Unnecessarily long timeframes for developers in obtaining consents and high costs of compliance can make the viability of projects more uncertain.

Regulation involves compromise and trade-offs between protecting the status quo and enabling growth for the future. As an example of Auckland's challenges, the council's existing Unitary Plan falls short of projected demand by 104,000 homes over the next 25 years. The Independent Hearings Panel's recommendations to relax a number of restrictions would mean the city is better placed to accommodate future growth. However, even under the Independent Hearings Panel's full recommendations, there is a very tight margin of error for meeting Auckland's future housing needs.

But even if a number of these recommendations are adopted, Auckland will still be a relatively regulated city. It will be uncertain for a number of years whether the dial has been shifted enough to ensure that Auckland can adequately cope with its future growth. And, arguably, the supply response needs to be swifter than what it has been seen to date during 5 years of a booming Auckland housing market.

Boosting housing supply is more than just granting permission to build. New homes also need the infrastructure to support them. So infrastructure provision goes hand-in-hand with new home building.

The next issue of Home Economics will focus on the provision of infrastructure in the new areas being opened up for development. With new greenfield land freed up under the Unitary Plan's RUB and in light of the Independent Hearings Panel's recommendations to increase this by 30%, it will be important that infrastructure is adequately planned and funded.

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