



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

In our second issue of Home Economics we take a step back and analyse Auckland within a wider context of international cities and house prices. We explore whether any key themes found in Issue One extend to other cities, and make some observations on why that is occurring and what it suggests for the Auckland housing market.

Summary

Auckland's population growth is outstripping the pace of new housing supply, likely contributing to its high price-to-income ratio. A number of other cities with high house price-to-income ratios also have high population growth and comparatively sluggish housing stock expansion. This suggests that Auckland's housing market problems are not unique.

Land use regulations are one likely reason why the supply response has been slow in these cities. All the high-priced cities analysed have some form of urban containment policy limiting the supply of land available for housing. Houston, by contrast, has very few land-use regulations and some of the most affordable homes in the United States.

This finding has important policy consequences. It suggests that Auckland can learn from the solutions and challenges in other cities to find effective long-term supply-side solutions to slow the rate of house price appreciation in the city.

How does Auckland stack up?

Auckland under pressure

Issue One of ASB's new Home Economics report identified that it was not only Auckland's house prices that were feeling the pressure. Auckland's housing stock was being used with a greater intensity than elsewhere, and this had been increasing over time.

In order to understand this better, Issue Two compares Auckland to a number of other cities that also have very high price-to-income ratios.

Sharing Auckland's pain

Using the most recent Demographia International Housing Affordability Study, we identified a number of other cities where house price appreciation is also being flagged as an issue:

- Sydney, Australia
- Vancouver, Canada
- London, UK and
- San Francisco, USA.

According to the [12th Demographia International Housing Affordability Study](#) for 2016, Auckland has a median house price to median income ratio of 9.7 (categorised as severely unaffordable). Sydney had a price to income ratio of 12.2, Vancouver of 10.8, London of 8.5 and San Francisco of 9.4 – all of which also fall under the severely unaffordable category.

National Housing Affordability: 2015
ALL 367 MARKETS



Source: Demographia 2016

More people, fast

In Issue One we identified that Auckland's population was growing significantly faster than that of the rest of New Zealand, which was one likely reason the housing stock was coming under increasing pressure.

Looking at our sample of international cities, relative population growth varied. However, on an absolute basis, all these cities have experienced quite rapid population growth over sustained periods of time.

Between 2001 and 2011 London's population grew by an average rate of 1.3% p.a. Similarly in San Francisco, population grew by 1.4% p.a. between 2010 and 2014. In Vancouver, population grew at 1.5% p.a. between 2001 and 2011, and in Sydney population growth between 2001 and 2011 was 1.1% p.a.

Dwellings being squeezed

We also found previously that Auckland had a low vacancy rate relative to the rest of NZ as well as lower growth in the

housing stock relative to population growth. We were not able to find exact data on the vacancy rates in each international city we examined. But where we did, the figures suggested a similar story.

According to Australian Census data, 7% of Sydney's housing stock was vacant in 2011, compared to 12% in the rest of Australia. Similarly, a 2014 London housing report noted that housing [vacancy rates](#) were sitting at a historical low of 1.7%. In San Francisco, Census data showed that housing [vacancy rates](#) in 2014 were 5.9%, compared to 10.4% in the overall United States. Similarly, while information on overall vacancy rates for Vancouver could not be found, a report published on rental vacancy rates showed that the overall rental vacancy rate fell to 0.8% in 2015 (the first time it has fallen below 1% since 2008).

Comparing dwelling growth rates and population growth rates:

- Sydney dwellings grew at a rate of 0.6% p.a. between 2001 and 2011; whereas the population grew at 1.1% p.a.
- In London, the housing stock grew by roughly 0.9%p.a. between 2003 and 2013. This is lower than the 1.1% p.a. population growth between 2001 and 2011.
- In San Francisco, the housing stock expanded at an annual rate of 0.6%, compared to 1.4% p.a. population growth between 2000 and 2010.
- Vancouver – no information available.

Sluggish housing supply response

What has become evident is that all of these cities have undergone rapid population growth, while at the same time the housing stock has not kept up with the expanding population base. This has created a degree of tightness in each housing market that will be contributing to these cities' high price-to-income ratios.

As a result, we thought it was worth opening up the discussion to why the housing stock may be struggling to keep up with population growth. In particular, we were interested in whether land use regulations are constraining growth in the housing stock and pushing up house price appreciation. One of the key factors listed for Auckland by the Productivity Commission has been land zoning and land-use regulations.

Regulatory Environment

Widespread containment policies

Returning to the 2016 Demographia report, the authors noted that each market categorised as severely unaffordable (all housing markets discussed above) had some sort of urban containment boundary limiting the supply of land available.

In Auckland, this is known as the Metropolitan Urban Limit (MUL), but will likely be replaced by the Rural Urban Boundary (RUB) under the Proposed Auckland Unitary Plan. The RUB will define the extent of urban development until 2041. The boundaries for the RUB are shown on the map opposite.

In London, the Green Belt has been constraining urban sprawl since 1938 and was extended through the [Greater London Plan](#) in 1944.

In San Francisco, urban growth boundaries have been used for many years. Most recently, the Plan ([Plan Bay Area](#)) would require more than three quarters of new residences and one third of net additional employment to be located in confined "[priority development areas](#)." These measures have been referred to as "pack and stack" by critics.

And in Vancouver, the [Urban Containment Boundary](#) will contain and control urban development until 2040.

Accompanying each urban containment policy for each city we have discussed, are numerous references to the impacts these policies have had on land and house prices.

For example, in a [speech](#) to Victoria University in 2015, Deputy Prime Minister Bill English stated that for Auckland a "study found that the value of land just inside the urban boundary was ten times higher than the value of land just outside it. That huge price difference around an arbitrarily-selected line on a map indicates that there are housing opportunities outside that boundary that cannot be taken because of planning restrictions. Consequently, first home buyers trying to access the housing market are being prevented by land prices inflated by an urban boundary."



The cost pressures associated with land-use regulations become more apparent when looking at cities with light land use regulations.

For example, Houston, Texas is known for its light land-use regulations. A report on the [Houston economy](#) by the Federal Reserve Bank of Dallas in 2008 showed that Houston had not experienced high house price appreciation, despite its strong population growth. Instead supply was more easily able to meet demand. Houston is an extreme example, and there will be non-land costs of its land use approach e.g. urban sprawl, transportation and infrastructure impacts. Another difference, however, is in the way Texas funds utilities infrastructure. Municipal Utility Districts in Texas provide infrastructure such as water, sewer and drainage services, as well as build parks and street lighting by selling tax-exempt municipal bonds. This way, the cost of utilities infrastructure is not loaded directly onto the cost of building a new home, like it is in NZ.

Next steps

What does this mean for Auckland house prices?

Auckland is not the only city to be suffering from 'unaffordable' homes. And interestingly, the other cities analysed in this report have a number of the same problems we identified in Issue One.

These are all cities with strong population growth, coupled with a lagging supply response. Looking more closely, housing supply appears to be lagging as a result (at least in part) of restrictive land use regulations; notably, urban containment boundaries. And, when these cities are contrasted with house prices in Houston, a city with only few land-use regulations, the impacts of regulation on house prices become even more apparent.

The next issue of Home Economics will explore land-use regulations in Auckland in more depth. Urban containment policies are not the only land-use regulations: minimum lot sizes and other regulations will likely be playing a part in limiting supply and therefore adding to land prices.

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