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Kāinga Tipu

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Regional Housing Markets in New Zealand: House Prices, Sales and Supply Responses

House and land prices have risen in real (CPI-adjusted) terms by 105% and 286% each on average across New Zealand between 1981 and 2004. A strong regional divergence in house and land inflation reflects differences in demographic and economic variables in the regions and a substantial difference in the regional responsiveness of new housing supply to population pressures. From the modelling, land prices appear to have made the greatest contribution to the growth in house prices. It is recommended that a key policy focus should be ensuring that land prices and construction costs are kept to a minimum, consistent with other objectives. This will require planning and regulatory process conducive to development of residential land and to the construction of new dwellings.

Based on research by Motu Economic and Public Policy Research (Arthur Grimes and Andrew Aitken). The research provides evidence on change in regional house and land prices and housing supply at the local level to underpin research into issues of sustainable housing supply across New Zealand. The research was commissioned by CHRANZ, the Department of Building and Housing and Housing New Zealand Corporation.

Key Points

- Real (CPI-adjusted) house prices have risen substantially on average across New Zealand (at 105%) between 1981 and 2004, but there has been a strong divergence in regional house price growth. Major urban areas and sun-belt destinations report the strongest growth. Areas with negative or low real price rises are predominantly rural North Island or southern South Island regions.
- Land prices have increased at a significantly faster rate than housing prices, with a wide regional variation. Between 1981 and 2004, the real price of vacant residential sections rose by 286% on average across New Zealand.
- Land prices, rather than house construction costs (materials and labour), are likely to have had the greatest effect on the growth in house prices.

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KEY POINTS CONTINUED

- The growth of investment in sun-belt destinations (retirement, holiday home and tourism destinations) is another key factor affecting house and land prices.
- Territorial local authorities (TLAs) differ substantially from one another in the responsiveness of new housing supply to population pressures.
- If high house prices are a concern, it is recommended that a key policy focus should be ensuring that construction costs and land prices are kept to a minimum, consistent with other objectives. In turn, this requires planning and regulatory processes that are conducive to the development of residential land (or of in-fill sub-division of existing land) and to the construction of new dwellings (whether single or multi-unit). The appropriate forms of regulatory and planning processes that result in these outcomes needs to be a subject of close scrutiny in New Zealand.

Findings

House and Land Prices

Over the period 1981 to 2004, real (CPI-adjusted) house price growth across New Zealand was 105%, ranging from -40% and -35% in Kawerau and South Waikato, to 223% and 244% in Auckland City and Queenstown-Lakes. Twenty-six TLAs had growth of more than 100%, while ten had negative real growth. The latter group is dominated by southern South Island and rural North Island areas. Such areas tended to experience population stagnation or decline and low economic growth over much of the past two decades. Strongly performing areas are dominated by the major urban centres and tourist destinations.

Between 1981 and 2004, the real (CPI-adjusted) price of vacant residential sections rose by 286% on average across New Zealand. The increase in Auckland City was almost 700%; in Manukau, North Shore and Rodney increases were around 460%. Increases in sun-belt locations were also substantial: over 400% in each of Queenstown-Lakes and Thames-Coromandel. Not all regions shared in high land price increases, with four TLAs experiencing real land price falls.

Land prices, rather than house construction costs (materials and labour), are likely to have had the greatest effect on the growth in house prices. Real construction costs have been relatively stable since the early 1990s, albeit varying in a consistent way across regions.

On average across the country, a 1% increase in real residential land prices translates into an estimated 0.27% increase in real house prices; statistically, the effect is highly significant. In the absence of real land price increases, Motu predicts that real house prices would have increased by just 16.4% over the 23 year period, or by roughly 0.7% p.a. This is in keeping with construction costs rising at a broadly similar rate to consumer prices over the period, which appears reasonable.

Another key factor affecting house prices and land prices is the growth of investment in sun-belt destinations. These areas have had both high rates

of house building relative to population growth and high real house price rises. Thames-Coromandel had real house price growth between 1991/92 and 2004 of 103%; Taupo and Napier had 84% and 82% real house price growth respectively. The issuing of consents by the TLA with the highest real house price growth over this period, Queenstown-Lakes (at 155%), was moderately responsive relative to population change.

Holiday areas also have high unoccupied dwelling rates and low occupancy rates. In these areas, the need for new house supply to respond to demand pressures is particularly important. This is because new building must cater for new housing demand from both residents and non-residents (where the latter includes New Zealand and international owners of holiday homes, as well as casual tourists). If new house supply is not sufficiently responsive in these regions, the effect on local prices, and hence on housing affordability for local residents, can be problematic.

Housing Supply Responsiveness

TLAs differ substantially from one another in the responsiveness of new housing supply to population pressures. In the Auckland region, between 1991/92 and 2004, Manukau had a low ratio of building consents relative to population change (0.29 – that is a new dwelling consent was issued for approximately each additional 3.5 people). This compares with Auckland City and Waitakere (0.37), Rodney (0.41), Franklin (0.46) and Papakura (0.56 – that is fewer than 2 people per new consented dwelling). Of these TLAs, Papakura had the lowest real house price growth over the period (48%), compared with 79% for Franklin and 92–129% for the other five.

Within Auckland, therefore, there appears to be a relationship between house supply responsiveness (i.e. a high ratio of building consents to population change) and trend price increases: the more responsive supply is, the lower the house price growth.

Demographic and Economic Variables

Motu's analysis also shows that rates of change in regional house prices can be related to demographic and economic factors (per capita production, real commodity prices and employment participation).

A 1% rise in population (holding the housing stock constant) raises real house prices by an estimated 0.8% via the dwelling density term and by a further 0.4% to 0.5% through the amenity effect (i.e. through the population variable). A 1% increase in per capita production raises real house prices by between 0.2% and 0.3%. A 1% increase in real commodity prices raises house prices between 0.26% and 0.42%. If employment participation rises by 1%, the effect is to raise real house prices by 0.5% to 0.6%.

These price increases are moderated by supply responses. Motu estimates that a 10% increase in regional house supply (relative to population) results in an approximate 8% decline in house prices in that area. Thus new house supply in response to changes in demand and movement in house prices has an important potential for dampening long run house price responses.

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Policy Implications

The price of a house ultimately reflects the price of the factors that comprise that house, the two fundamental factors being the structure and the land. Other things being equal, New Zealand and international evidence indicates that expanding regions that keep these costs under control will deliver new housing development without the price pressures faced by regions with higher costs.

The authors recommend that, if high house prices (i.e. poor housing affordability) is a concern, a key policy focus has to be on ensuring that construction costs and land costs are kept to a minimum consistent with other objectives (e.g. ensuring adequate building standards and appropriate land use for the community, and that environmental impacts comply with the Resource Management Act).

In turn, this requires a planning and regulatory process that is conducive to the development of residential land (or of in-fill sub-division of existing land) and to the construction of new dwellings (whether single or multi-unit).

The nature of regulation and planning processes that enables this to occur is an important issue. This issue needs to be researched further in a comparative study involving multiple local authorities across New Zealand.

Further Information

This bulletin is based on the report *Regional Housing Markets in New Zealand: House Prices, Sales and Supply Responses*. A copy of the report and this bulletin can be found on the CHRANZ website under “Our Publications”.

Other useful reports include:

- *Housing and Structural Adjustment* Motu (June 2003)
- *Changes in the Structure of the New Zealand Housing Market* DTZ New Zealand (May 2004)
- *Housing Tenure Aspirations and Attainment* DTZ New Zealand (October 2005)

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