

The cold winds of home ownership

Housing affordability, especially in Auckland, is getting plenty of attention. Builders bemoan land shortages and consent issues for driving up costs, while some locals are voting with their feet and buying further afield.

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TWO ISSUES DOMINATE New Zealand's housing affordability discussions - the severe unaffordability in Auckland for many people due to lack of development and the changing face of housing in Christchurch following the earthquakes.

Auckland the most problematic

In other towns and cities, prices generally remain more affordable and stable, but there are areas that are attracting cashed-up Aucklanders whose buying power is starting to spread the affordability problem.

By several measures, houses in Auckland are too expensive for many of the city's residents. They have been for the last few years, and the situation is getting worse.

Auckland Council and central government have attempted to put measures in place to address the problem. These include the Auckland Housing Accord's Special Housing Areas that allow fast-tracked development at nominated sites and the ability to access KiwiSaver for first-home deposits.

Indicators highlight issue

Current affordability statistics and indicators suggest things aren't getting better:

- Auckland's median house price rose a record 26% to \$755,000 in a single year to July 2015, based on Real Estate Institute of New Zealand data.
- In July 2015, economic research and analysis company Infometrics showed the median house price in Auckland is equivalent to 11.3 years of average income,



Hamilton is one area where prices are on the rise due to cashed-up out of towners.

where 3 years is the generally accepted affordability threshold.

- The 11th annual Demographia International Housing Affordability Survey released in January 2015 classified Auckland as the ninth least affordable major city in the world.

Home builders cite consent issues

Home builders and housing analysts around the country share frustration at the lack of progress on affordability, with land supply and legislation surfacing as key issues.

Style Construction has been building new homes in Auckland for the last 12 years. Director Christopher Persson believes that Auckland Council's processing of consents and approvals is directly slowing down the rate houses could otherwise be built.

'We can physically build a 150 m² 3-bedroom house in 4 months, but we spend just as much time in paperwork. Design and engineering takes 6 to 8 weeks, 1 month to

get a building consent and 1 month at the end to get a Code Compliance Certificate.'

Christopher says too much bureaucracy is involved. 'During a building consent review, council once asked me to verify the ground slope our foundations were going into - and of course the site hadn't yet been touched.

'The clock can get stopped, and all of a sudden council don't have to meet their 1-month consent deadline. We're left unable to do anything.'

These delays translate to customer costs. 'The result is builders build fewer houses in a year, and they have to spread overheads over fewer houses, so the costs for each house increase to cover that.

'I was in Melbourne earlier this year where I saw 4-bedroom house and land packages in the outer suburbs for A\$329,000. The equivalent available here cost \$650,000 and are located over the Bombay Hills in Pokeno.'

House building and purchasing in Wellington is fundamentally different, with

400-450 m² sections costing \$200,000 as opposed to \$450,000 in Auckland's fringes.

Phil Savage, Director of Golden Homes Wellington, says that, alongside land cost, construction costs in Wellington are lower. 'In Auckland, trades can ask for more money because of the shortage of resources. A plumber might have 10 houses on the go, but in Wellington, they might only have three jobs.'

Regulations add to costs

Phil says health and safety regulations are also having an impact on building costs. 'Regulations around fall protection, for example, mean we spend between \$10,000 and \$20,000 on scaffolding for a two-level house - a cost that never existed before.'

For the first time Golden Homes will be employing a full-time health and safety supervisor for a new subdivision project to keep up with legislative demands.

'Health and safety is crucial, but the increasing paperwork required comes at ➤



Auckland – so appealing and so expensive.

a cost that ultimately influences the final house price.'

Christchurch rises tailing off

In Christchurch, over the last 3 years, the average house price grew 23% from \$386,000 to \$474,000 according to Quotable Value data from May 2012 to February 2015.

However, unlike Auckland, there has been a recent tail-off, with only a 0.3% average price rise between February and May 2015. Figures from listings website realestate.co.nz showed a 0.8% drop in asking prices between March and May 2015, and 4% more houses were listed than the same time a year ago.

Quotable Value's Daryl Taggart says Christchurch's rapid price growth of recent years appears to be 'tailing off, suggesting that some areas may have found their peak'.

Christchurch's Hugh Pavelitch, who produces the Demographia International Housing Affordability Survey, says the city's cost-to-income median multiple, which was 6 in 2014, is currently trending back towards 5.

Drift to the regions

Nationally, Hugh believes that we are at the start of a wave of Aucklanders selling up and moving to smaller centres. 'People

on declining incomes or going into retirement or those struggling with living costs are highly incentivised to move to a more affordable environment in another city.

'They can buy in a smaller town and have \$500,000 cash in hand. This move will stimulate construction activity in these smaller centres. Councils will do their best to facilitate this development and welcome these people to their town.'

The emerging trend for buyers to head for more reasonably priced locations is what Tony Alexander, ANZ Bank Chief Economist, has long been predicting. 'The comment I have been making is that, as with other housing cycles, eventually buyers would view Auckland not so much as overpriced but simply too expensive.

'Wariness of the debt one would have to take on to buy a property would lead investors, first-home buyers and people looking to free up cash to look outside Auckland.'

Data from property information and analytics provider CoreLogic shows half of the more than 300 properties sold in the Waikato region outside Hamilton in 2015 to date were to people leaving Auckland.

Between April and June this year, 873 Aucklanders moved to Waikato or Tauranga, compared to 300 in the last quarter of 2010.

Of the Waikato house purchases, Aucklanders paid on average 11.4% above CV, compared to non-Aucklanders who paid on average 6.7% above CV.

'Aucklanders are paying a premium and driving up local prices. It seems a form of economic migration is under way with the cost of Auckland housing a key driver,' says Jamie Farmer, Westpac Head of Consumer Banking Northern Region.

Call on central government

According to Hugh Pavelitch, solutions to Auckland affordability, and a subsequent avoidance of flow-on unaffordability in other regions, will only be possible when central government requires new Auckland Council behaviours.

'The solution is for the government to enforce new rules on council around land supply and forcing them to properly finance the infrastructure needed to allow new housing developments.

'Auckland Council will need the necessary cost disciplines that enable faster and cheaper house construction.'

This ignores the opportunities to reduce construction costs by designing smaller houses with cheaper finishes, but that is a whole new story. ◀