



**RODNEY'S RAVINGS** take an open-minded and at times irreverent look at topical economic and housing issues. Clients receive the reports on a complimentary basis will non-clients can sign up for a 12 month free trial on our website – <http://www.sra.co.nz/lists/>. This distribution list may occasionally be used to make people aware of services we offer.

## **RODNEY'S RAVING**

### **The government should do the obvious to fix housing affordability**

#### **EXECUTIVE SUMMARY**

KiwiBuild is experiencing some teething problems. Some people aren't happy that it isn't delivering new housing affordable to low income earnings while the extension of the ballot for the first 10 of the 211 KiwiBuild dwellings planned for Wanaka over two years may be a sign it will face indigestion problems in towns.

More teething problems will no doubt arise. But the real criticism should be aimed at the government's housing initiatives more generally because they aren't aimed enough at fixing the largest obstacle to more affordable new housing: high section prices.

This Raving puts the spotlight on the role rising section prices have played in driving up new and existing house prices in Auckland; with a similar story in all major urban centres except Christchurch where the earthquakes set it on a different path.

Ironically, the Housing Accord and Special Housing Areas the National Government put in place in Auckland may be belatedly starting to drive a hint of downside in sections prices. But it is far too little. Much more needs to be done to get down the cost of developing sections; it would deliver a real solution to the housing affordability problem.



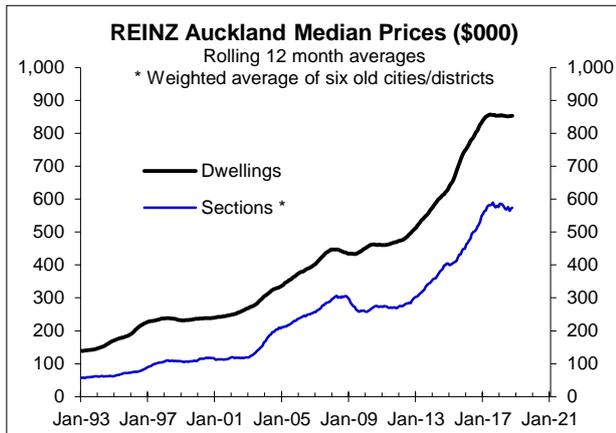
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## The role section prices have played in making housing unaffordable

Obviously the cost of sections feeds directly into the cost of new dwellings but section prices are also an implicit part of existing dwelling prices. A link between Auckland section and existing dwelling prices as evident in the chart below that uses the REINZ median prices.

The difference between the existing dwelling price and the section price is the effective market value of the improvements that is linked to a moderate extent to building costs.



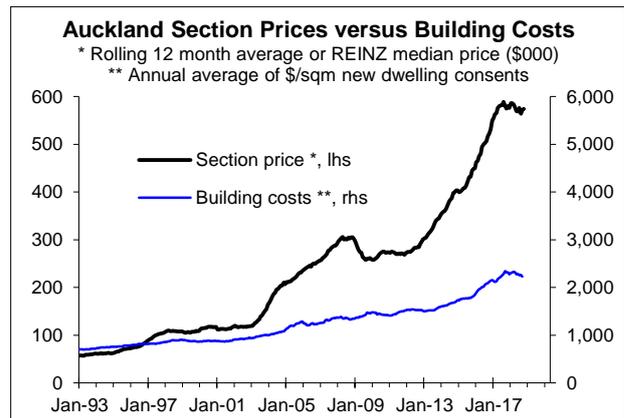
Between January 1993 and October 2018 the median section price increased 903% while the median dwelling price increased 514%. In the 12 months ended January 1993 the median Auckland section price was 41% of the median dwelling price while for the 12 months ended October 2018 the median section price was 67% of the median dwelling price. In a country with an extremely low population density it is madness that it costs more on average for a section than for the house built on it even in the largest region.

These increases and especially the increase in section prices look horrific when compared to the 68% increase in prices in general over the same period based on the Consumers Price Index, the 111% increase in hourly earnings over the average employees and the 89% increase in the national average rent based on the CPI rent component.

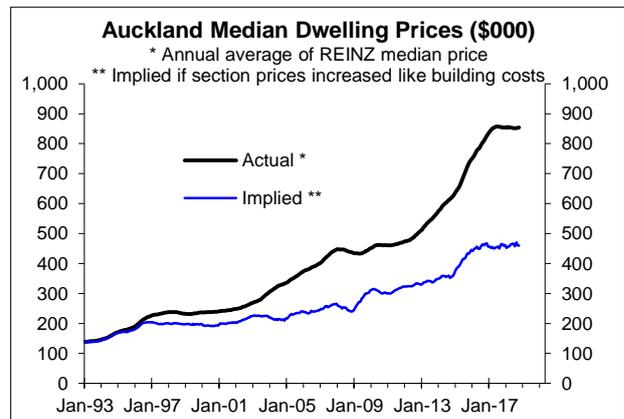
The causes sky-rocking section prices have been discussed elsewhere including by the Productivity Commission. Relevant factors include massive increases in development contributions, council policies that effectively gave oligopolistic pricing-power landowners, and a drawn-out and expensive process for getting new subdivisions approved. It is not the objective of this Raving to attribute blame for the horrendous increase in section prices but rather to put it in context of the contribution it has made to the housing affordability problem.

The next chart shows what is happening to the median section price reported by REINZ for Auckland versus the average cost of building per square metre based on the new dwelling consent data. While the median section price increased 903% between January 1993 and October 2018 the average cost per square metre for new dwellings in Auckland increased 212%. Building costs have increased much more than prices in general and average hourly earnings - this is in the context of average hourly earnings most likely understating overall income growth for a range of regions not discussed here. But the increase in building costs is dwarfed by the increase in section prices.

The increase in section prices is even worse than it looks because since 1993 the average section size has fallen significantly. The average price per square metre for Auckland sections will have increased much more than suggested by the median prices reported by REINZ. Unfortunately, data are not available on section prices per square metre but the increase will be well over 1000%.



If Auckland section prices had increased in line with building costs the blue line in the chart below suggests what existing dwelling prices will have done relative to what they actually did.





If Auckland section prices had increased since 1993 in line with the average cost per square metre of building new dwellings in Auckland the median section price would be around \$180,000 now rather than \$575,000. By implication the median existing dwelling price would be around \$460,000 rather than \$854,000 (i.e. \$394,000 or 54% lower).

So why isn't the government (and the Auckland Council and councils in all major urban areas) doing more to get down section prices? If the problem of high section prices was fixed the market would fix the new housing affordability problem without the need for the contentious and bureaucratic KiwiBuild "solution". Maybe the problem lies partly with the other parties that Labour relies on for support? But the problem runs deeper than this. National had every opportunity to fix this problem when it was in government but didn't.

Ironically, the minor fall in the weighted average Auckland median section price since early-2017 may be a response to the boost in supply from the 154 Special Housing Areas approved following National introducing Special Housing Area (SHA) legislation in 2013. The 154 SHAs were expected to add over 60,000 new dwelling sites in Auckland. But if it is, it is far too little and way too late. The SHAs didn't stop a massive increase in section prices since the legislation was passed in 2013 (i.e. 69% based on the weighted average median price for the Auckland region).