

# Sporadic

## Auckland Housing Shortage Again

## Sporadic 7

Well that was interesting. A refresher course in reading comprehension appears necessary for a number of journalists based upon some comments made in response to Sporadic 6. In that document last week I raised the issue of what is meant by the term “shortage” in the Auckland housing market, and introduced one definition of the number of houses needed to give the same household occupancy rate in Auckland as the rest of the country.

One group responsible for forecasting a 40% collapse in NZ house prices in 2008 claimed it meant that was my estimate of what is needed to beat the current “crisis”. It wasn’t.

What I aimed to show was that in any discussion of Auckland’s shortage there has to be agreement on what shortage means – and there is not. In fact lets undertake this little exercise. One common way of calculating the shortage is to pick a year, estimate Auckland population growth since then, calculate the number of houses needed to give an unchanging occupancy rate, then compare that with the numbers actually built and the difference is the shortage.

The important assumption people make when running this exercise is that the starting year was when things were normal and enough construction is needed to get back to that year. There is little chance that your personal pick for that nirvana year of the good old days is the same as the person standing next to you, thus you will have different estimates of what the shortage is. So to calculate the shortage people must first of all agree on what year they want to take Auckland back to. As an aside, if someone has back-calculated the current Auckland region population and occupancy rates before 1996 could you send me the data please. I’d like to see when Auckland’s occupancy rate started deviating from the rest of New Zealand.

In the table on the following page alongside each year we show the change in Auckland population from a year earlier, then the number of consents issued that year, adjusted downward 20% to allow for consents not taken up, consents for holiday homes, and demolition of existing houses. To help explain that adjustment here is a quote from a Department of Prime Minister and Cabinet report on housing.

“Building consent data is used to estimate the rate of construction of new houses, with an assumption that only 80% of new building consents translate into net additions to the country’s occupied housing stock. The remaining 20% is accounted for by consents not acted on, holiday homes and by activity that is replacing deletions from the housing stock”

<http://www.dpmc.govt.nz/dpmc/publications/hpr-report/hpr-7>

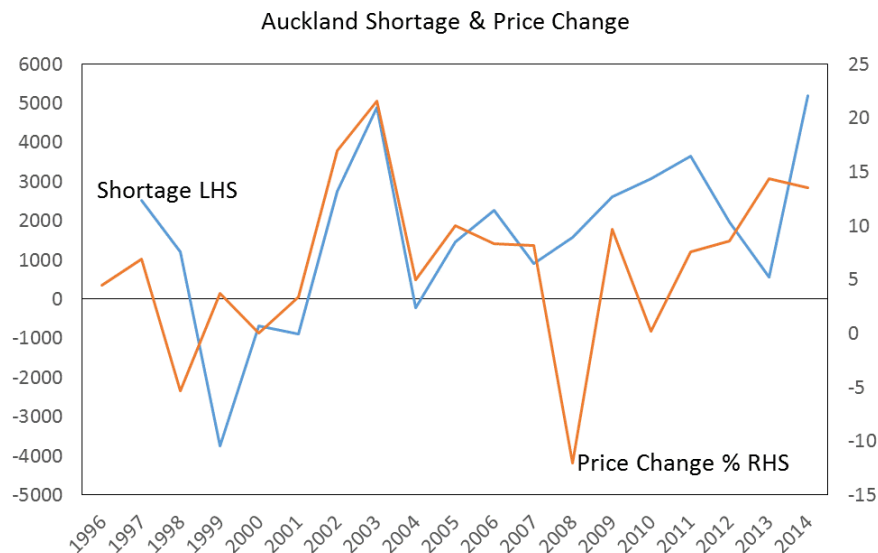
If you go to the source link you’ll find a piece of analysis akin to what we did in Sporadic 6.

Here is a link specifically on the NZ demolition rate from BRANZ.

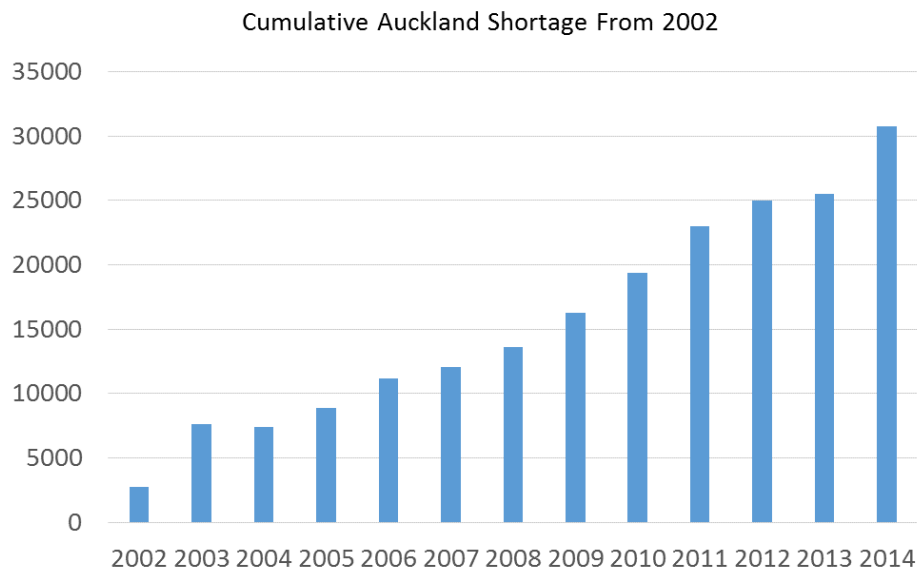
<http://www.buildmagazine.org.nz/assets/PDF/Build-135-61-Keeping-Homes-Up-To-Scratch.pdf>

	Estimated Population	Population Change	Dwellings Needed	Consents Issued	80% of consents	Shortfall That Year
1996	1115800			8840	7072	
1997	1146700	30900	10300	9712	7770	2530
1998	1169000	22300	7433	7770	6216	1217
1999	1184800	15800	5267	11263	9010	-3744
2000	1201500	16700	5567	7811	6249	-682
2001	1218300	16800	5600	8117	6494	-894
2002	1255800	37500	12500	12182	9746	2754
2003	1297600	41800	13933	11307	9046	4888
2004	1326000	28400	9467	12115	9692	-225
2005	1348900	22900	7633	7707	6166	1468
2006	1373000	24100	8033	7210	5768	2265
2007	1390400	17400	5800	6110	4888	912
2008	1405500	15100	5033	4308	3446	1587
2009	1421700	16200	5400	3475	2780	2620
2010	1439600	17900	5967	3603	2882	3084
2011	1459600	20000	6667	3772	3018	3649
2012	1476500	16900	5633	4582	3666	1968
2013	1493200	16700	5567	6257	5006	561
2014	1526900	33700	11233	7549	6039	5194

Pick your year. Lets say 2008. That gives an Auckland housing shortage now of near 19,000. Start with 2000 and you get 29,000. Start with 1997 and you also get 29,000. Do the analysis in 1999 starting in 1996 and you get no shortage. That is interesting. What were Auckland prices doing then? In the following graph we plot the annual shortage calculation above with the annual Auckland house price change.



This visual representation of the issue tells us three things. First, there is not a year to year strong correlation between this calculation of the under-building and price changes, but a correlation does exist, especially discounting 2008 as the GFC aberration. Second, and most importantly, apart from 2004 the cumulative shortage has been rising since 2002. In fact here it is pictorially.



Calculate for yourself what this growing shortage by this common definition means for

- prices
- rents
- the incentive for investors in Auckland to buy
- the incentive for Kiwi investors elsewhere in Auckland to buy
- the incentive for foreigners to buy
- education outcomes for those on low incomes facing higher housing costs and reduced quality of that housing
- health outcomes, income outcomes, societal inclusion outcomes for that same group.

And that is why I personally have been highlighting the situation in housing since 2008 when people were clamouring to out-forecast each other regarding the extent of the price collapse to occur in Auckland, and I figured lack of supply would limit the decline to 10% - 15%. Not to signal to investors that they should buy, but to tell policy-makers that they should not think prices would collapse and the social housing crisis would somehow solve itself. Years have been wasted not attacking the problem and worse outcomes for those lower socioeconomic people is coming.

And what is the third thing one can take from the shortage vs. price change graph? Look at the two periods when Auckland house prices were falling – 1998-2000 and 2008. What was happening then? The Asian Financial Crisis, then the Global Financial Crisis. Thus it seems quite reasonable to write the following.

When will Auckland house prices fall? When the world economy next has a meltdown. How much will they fall by? No-one can forecast that, but it will be interesting when that inevitably happens to see the interaction between the heights of prices versus incomes, debt servicing versus incomes (the interest rates effect), the extent and longevity of the global or regional economic decline, and the magnitude of the housing shortage by then. Best guess on timing? 2018. By then the no-brainer stimulus to our economy from rebuilding Christchurch, expanding dairy production, adjusting to structurally lower interest rate expectations and petrol prices, and the migration boom will have passed. What will drive our growth then given the re-emergence of long term trends such as lack of export diversification, absence of a rising exports to GDP ratio, baby boomers leaving the work force, manufacturing's secular decline, the shift of employment to low paying tourism sector jobs, and a cultural aversion to growing firms to big size?

Just briefly to finish off, congratulations to the Minister for Housing Dr Nick Smith and Labour Housing Spokesperson Phil Twyford for getting their comprehension of Sporadic 6 right in replies to questions in Parliament on Friday.

“Phil Twyford: Is he aware that BNZ economist Tony Alexander calculates that if the level of household overcrowding in Auckland is to be reduced to the level found in the rest of the country, the city would need to build an additional 76,000 houses on top of the 13,000 needed just to keep up with population growth, when the current build rate on the Minister’s 6-year watch is only a pathetic 7,900 a year; and how many of his 100,000 homes shortfall will his latest scheme in Tāmaki provide?”

Mr SPEAKER: Again, any one of those numerous questions—the Hon Dr Nick Smith.

Hon Dr NICK SMITH: No, I do not accept the analysis. Let me tell you very simply why. We have quite low occupancy of houses in, for instance, some parts of provincial New Zealand, like Invercargill and like the West Coast. That is because house prices in those areas are quite low and people have quite low numbers of occupancy of bedrooms. That is perfectly logical in those areas. What Mr Alexander does is say that if we have the same occupancy rate as those areas, then you need those massive numbers.

Phil Twyford: So it’s OK for Auckland to be overcrowded? That’s OK?

Hon Dr NICK SMITH: No, actually, the truth shows that there are a large number of vacant bedrooms in many of those communities and that is quite reasonable in those communities. If the member opposite is saying that he thinks there is a deficit of that size, I simply think his analysis is flawed.”

Spot on. Auckland is different from the rest of the country and becoming more so. Come the next census it is likely that Auckland’s occupancy rate will have risen to at least 3.1.

## Sporadic Library

6. Auckland Housing Shortage is how big? <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-6-April-29-2015.pdf>
5. NZ Business Culture. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-5-April-23-2015.pdf>
4. A Capital Gains Tax on Housing? <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-4-April-16-2015.pdf>
3. China is Important to us. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-3-April-13-2015.pdf>
2. Kiwi/AUD parity – mainly a function of AUD weakness. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-8-2015.pdf>
1. Implications of interest rates staying low for a long time. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-7-2015.pdf>

Sporadic is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. It is a supplement to the monthly NZ Observer. Please sign up at [www.tonyalexander.co.nz](http://www.tonyalexander.co.nz) To change your address or unsubscribe please click the link at the bottom of your email. [Tony.alexander@bnz.co.nz](mailto:Tony.alexander@bnz.co.nz)

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