



Auckland housing market conditions

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Auckland's housing shortage has continued to worsen, and the construction sector is struggling to keep pace.

- Auckland needs around a decade of strong building activity to address its housing needs. The region already has a shortage of around 30,000 homes, and the population is set to grow by around 300,000 people over the coming decade.
- Home building in Auckland has been rising, with around 11,000 new dwellings consented over the past year. Nevertheless, building levels are still lower than what's needed. Furthermore, the rise in consents likely overstates the additions to the housing stock as, with a push towards densification, many of the homes that are being built require the demolition of old ones.
- A shortage of skilled labour is a key constraint. Nearly 10% of the nation's labour force is already employed in the construction sector, and we will need around 40,000 more workers in construction and related occupations nationwide over the next five years alone. However, labour productivity has fallen and there are questions about whether we will have the necessary skills base.
- With the construction sector already constrained, the impact of the Government's KiwiBuild program on the overall level of building will be limited in the short run. Nevertheless, KiwiBuild will still be an important influence on the type of houses that are built and could help to support activity during slowdowns.
- The shortage of housing is going to get worse before it gets better. Although we expect that population growth will slow over time, it will be several years before building levels catch up, and even longer for the shortage of homes to be eroded.



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Auckland's housing shortage is going to get worse

Population growth in Auckland has continued to outpace home building, and around a decade of strong construction activity will be required. That is going to be a tough task to achieve. Furthermore, even if home building does rise to the required levels, Auckland's housing shortage is still going to persist for years to come.

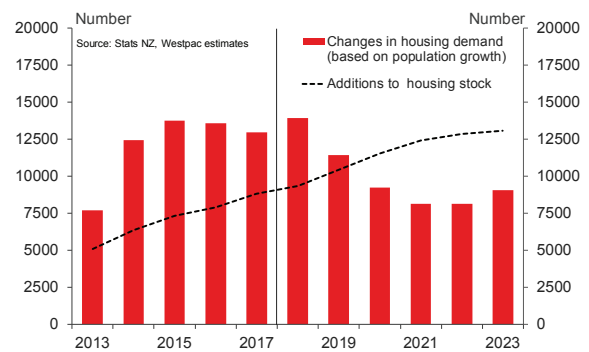
Population	
2017	1,657,200
Increase June 2012 to June 2017	180,000
Required houses	Around 60,000
Dwelling consents issued	40,000
Estimated population growth 2018 to 2027	+300,000
Required houses	Around 100,000 + existing shortfall

Number of homes per 1,000 people	
2012	340
2017	320

Changes 2012 to 2017	
House price growth	+74%
New residential rents	+24%
Median income growth	+29%

Sources: MBIE, REINZ, Stats NZ, Westpac estimates.

Auckland housing demand and home building



Auckland will need to build around 130,000 homes over the next decade, and that is going to be tough to achieve

Over the next decade, around 300,000 more people are expected to settle in Auckland - an increase of around 17%. There's no denying that is a very large number of people. But to put it in context, that estimate actually assumes a significant slowdown in population growth from today's high rates.

To address its existing shortfall and meet the needs of its growing population, Auckland will need to build around 130,000 homes over the next decade.³ On top of this, there will be normal alterations and maintenance work. There's also a significant amount of other construction planned nationwide, including many large infrastructure projects.

The key question is how quickly will building activity pick up? At this stage, it looks like it's going to be a slow grind higher. Home building in Auckland has been rising, with around 11,000 new dwellings consented over the past year. But while that is a rapid pace of home building, it's still below what's needed. And in recent months, issuance has flattened off again.

Furthermore, with a push towards densification, an increasing number of the homes that are being built are 'replacements', where an existing home is demolished to make way for two or more new dwellings. This means that even with a sizeable lift in home building over the past few years, the actual additions to the housing stock have been more limited. Consistent with this, information on the number of electricity connections and estimates from CoreLogic point to only gradual increases in the number of houses in Auckland.

Auckland has around 30,000 too few homes

Auckland is wrestling with a massive shortage of housing. Since 2012, population growth in the region has far outpaced the rate of building. Our conservative estimate is that around 30,000 too few homes were built over this period. Even if population growth fell to zero, we would need around three years of rapid home building just to catch up.

Auckland's population increased by an estimated 180,000 people between June 2012 and June 2017 - an increase that signals the need for around 60,000 additional homes. Over this same period, however, only 40,000 new dwellings were consented, and even fewer were built. On top of that, many of the homes that were built were actually replacements for existing ones.

This combination of strong population growth but relatively low home building has continued into the new year, reinforcing the shortage of housing in Auckland. This is contributing to a range of interconnected social and economic challenges, including significant pressure on housing affordability. Those pressures are not going away any time soon.

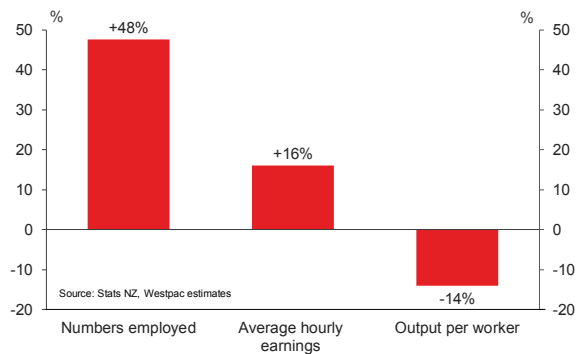
³ That estimate includes an allowance for demolitions.

Importantly, even at current building levels, the construction industry is encountering significant growing pains. Those include difficulties accessing finance, rising costs, and a shortage of skilled labour. That combination of factors is providing a brake on how fast building levels can ramp up to meet demand.

One of the biggest challenges to addressing Auckland’s housing needs is the availability of labour. With strong increases in building activity across the country in recent years, nearly 10% of the nation’s labour force is now employed in the construction sector. That’s the highest level in decades.

But as employment in the construction sector has increased, labour productivity has fallen, and construction firms across the country are highlighting significant difficulties sourcing the skills they need. We’ve also seen wage costs in the sector rising.

Nationwide construction employment, wages and output per worker – 2012 to 2017



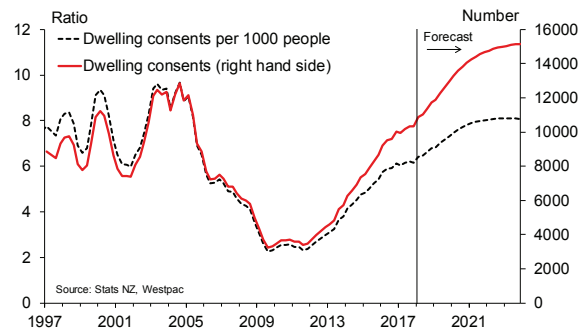
If labour productivity in the construction sector remains steady – and that is a big “if” – New Zealand would need around 40,000 additional workers in construction and related occupations over the next five years alone. While that many workers theoretically could be sourced from the existing labour force, there are questions about whether available workers will have the necessary skills.

These difficulties sourcing labour will be a major constraint on home building activity in Auckland. Consequently, the building cycle could be even more protracted than we are assuming. However, as we discuss later, such constraints could also be a catalyst for changes to increase capacity in the construction sector. Such changes could include a focus on training and development, as well as changes in building methods like the increased use of prefabrication.

Auckland needs to build an average of 13,000 homes per year over the coming decade. However, given the constraints noted above, we don’t expect that target will be met in the very near term. Instead, we’re forecasting that building levels will gradually rise to the required pace, with a period of strong activity in later years.

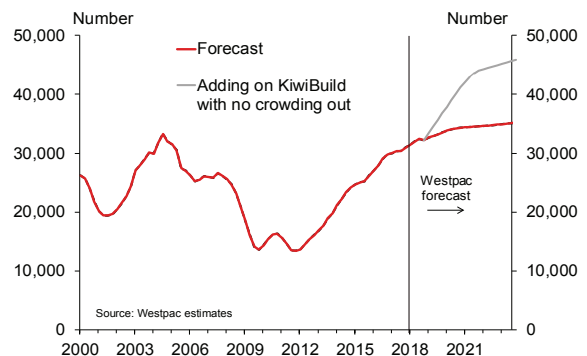
The above constraints also mean the impact of the Government’s KiwiBuild program on the overall level of building will be limited in the short run. The KiwiBuild program will involve the Government financing a \$2bn

Auckland home building levels (annual)



investment fund tasked with building 100,000 affordable houses over the coming decade, with half of those intended to be in Auckland. However, KiwiBuild will be one more bidder in a market with already constrained resources. It may outbid private sector developers for land and the services of construction firms. But the resulting crowding out of private sector spending means that the program will not necessarily add much to total construction activity. Instead, KiwiBuild will shift the composition of building, with more small homes being built, but fewer large ones. KiwiBuild could also help to support the construction sector during economic downturns, providing an additional source of demand if private sector spending slows.

Annual nationwide home building



Auckland’s housing shortage is going to get worse

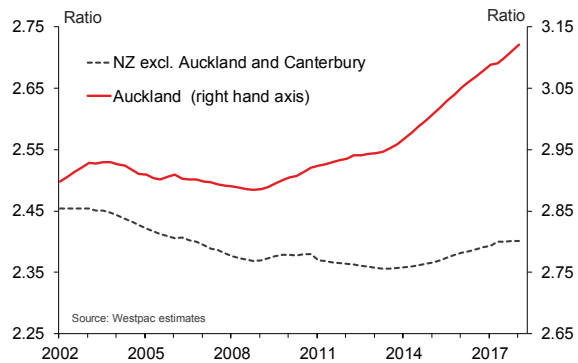
Strong population growth and relatively low levels of home building in recent years have seen the housing shortage in our largest city rising to acute levels. For every 1,000 people in Auckland there are now around 320 houses. That’s down from 340 in 2013, and is a far cry from other parts of the country, where there are around 430 homes for every 1,000 people.

Auckland’s housing shortage is going to get worse. Even assuming a pickup in home building, it will be several years before building levels catch up with population growth, and even longer for the shortage of homes to be eroded.

Record levels of net migration have seen population growth in Auckland surging to rates of over 2.5% in recent years. In part, that has been due to an increase in the number of new

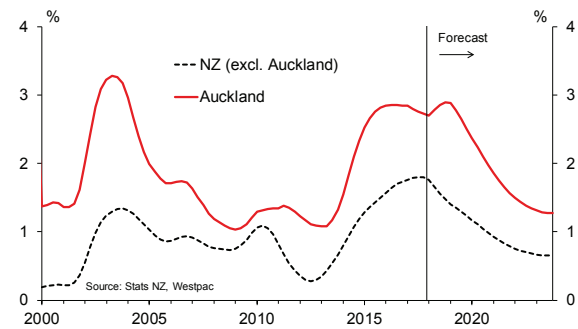
arrivals from other countries. We've also seen higher-than-usual numbers of New Zealanders coming back from abroad and lower-than-usual departures of New Zealand citizens.

People per dwelling



Looking to the next few years, we expect that net migration and population growth will ease back, but only gradually. Arrivals have levelled off and departure numbers are trending upwards (echoing the earlier rise in the number of people who entered the country on temporary work and student visas in recent years). We expect that these trends will continue for the next few years, and they will be reinforced by a planned tightening in migration settings by the new Government. However, this is an easing from very high levels, meaning Auckland's population will continue growing at a strong pace for some time yet.

Annual population growth



Even allowing for an increase in building and a slowdown in population growth, it's doubtful that the availability of homes in Auckland will return to the sorts of levels we saw over the past decade. It's normal for larger centres to have higher levels of population density than other regions. The employment, educational and social opportunities that larger centres tend to offer attracts large numbers of people. And Auckland is no exception. However, with limits on land supply, the resulting pressure on rents and house prices means that many people end up living in larger households, be that with flatmates or extended family. However, there is a limit to how far this squeeze can go, especially as the related pressures on rental costs and house prices can contribute to a range of social stresses.

Where to from here?

Whatever way you cut it, Auckland is facing an uphill battle to address the housing needs of its rapidly growing population. At the heart of this is a challenging balancing act: Auckland needs to increase the rate of home building. But it also needs to ensure build quality, and the resulting homes need to be affordable. Achieving all three of those aims simultaneously will not be easy.

A faster rate of home building would obviously help to limit the housing shortfall. However, with labour shortages already biting, it's not clear that building levels can rise significantly higher in the near term. Even if they do, we may be confronted by other challenges. We're already starting to hear anecdotes about instances of poor quality building. And going forward, we'll need to see a further sizeable lift in home building from the current elevated levels that is sustained for an extended period. The last time we saw the sort of pace in home building that is now needed was in the late 1990s / early 2000s. But even though that was a much shorter building cycle than we now require, it was associated with large increases in building costs, and significant issues in relation to build quality, such as 'leaky buildings' and 'shoe box' apartments. A faster pick-up in home building now would also increase the risk of a boom-bust cycle in the construction sector.

In light of such concerns, we've assumed that Auckland will aim to address its housing shortage gradually over the coming decade. However, that does mean that pressures on housing affordability won't be going away anytime soon, and many Aucklanders will continue living in less than ideal conditions.

Given the magnitude of the challenges Auckland is facing and the extended period that will be necessary to address them, it's likely that we will see a number of other related changes. That includes a permanent uptick in the average number of people per home compared to the previous decade.

The coming years are also likely to see changes in the nature of the houses we build. Supported by changes in the regulatory environment, we're already seeing a shift towards smaller and higher density homes, whose reduced footprint can help to limit build costs. We expect this shift to smaller dwellings will continue for some time. There are also likely to be related efforts to reduce costs and improve efficiency in the building sector, such as the increased use of prefabrication. However, we also need to be conscious of the considerable variation in the size and structure of families in our communities. There will still be the need for larger homes, and addressing the related challenges around housing affordability will not be simple.

Over time, we are also likely to see changes in the labour market. We are already seeing efforts to attract more people into construction related occupations, and increasing numbers of people are entering apprenticeships and training programs. Businesses are also attempting to recruit skilled labour from abroad.

Finally, the coming years could see a further tightening of migration policy aimed at slowing population growth. In contrast to housing supply, which can take an extended period to address, changes to migration policy can be pushed through relatively quickly. However, with signs that the migration cycle has already peaked, policy changes at this stage are likely to have a relatively limited impact. Furthermore, much of the strength in net migration has been due to higher-than-usual numbers of New Zealanders remaining onshore or coming back from abroad, both of which are outside the control of domestic policy settings.

Increases in the population and the ongoing densification of Auckland will have a dramatic effect on many communities. While there is a lot of focus on the housing shortage itself, we can't forget about the multitude of related concerns that will also need to be addressed. That includes the provision of essential infrastructure, including adequate transport systems. We will also need a concerted focus on the growing social needs of our communities, including the provision of health services, schools and green spaces. Such 'social' infrastructure is essential for ensuring that we build a liveable city.



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