# Supply and demand

Housing demand and the identification of future housing trends are core elements in determining if current and future housing supply is on track to meet the needs and preferences of residents.

**THE LAST FEW YEARS** have seen a shift in thinking about the value of medium-density housing (MDH) and its ability to deliver quality of life outcomes for residents in existing neighbourhoods.

By alleviating further sprawl, MDH is seen as a growth management tool for protecting productive land and reducing the infrastructure demands of towns and cities. It is also seen as a mechanism to assist with the growing issue of housing affordability.

As a result, an increasing number of local and regional councils have developed MDH strategies and policies to shape their future growth.

## Market trends

Since the 1960s, as growth pressures increased in the main centres, intensification significantly shaped the urban form of New Zealand's cities. Levels of growth and growth patterns have been different in different areas (Figure 1).

Auckland has seen the most widespread growth across its metropolitan area, including a surge in the intensification of city-fringe suburbs since the 1980s.

Wellington has seen considerable intensification through both suburban infill and downtown apartment development in the central city, while the broader metropolitan area of Wellington remains relatively low density.

More recently, the urban form of Christchurch has been enormously affected by the 2010 and 2011 earthquakes. Although newer subdivisions with some integrated MDH have occurred, the number of apartments 4 storeys or above has decreased by two-thirds in the central city of Christchurch.

A greater variety of MDH developments, such as terraced housing and low-rise apartments, have been occurring in each of these centres. However, in many cases, they have not met the intensification targets set out in the relevant strategies and policies.

Data from Statistics New Zealand indicates that, at the 2013 Census, low-density standalone housing made up 81.1% (1,193,358 dwellings) of the total occupied New Zealand housing stock. Of these, three out of four were single storey. In contrast, medium-density attached housing such as units, terraced housing and apartments made up 18.1% (266,748 dwellings) of occupied private dwellings.

In Auckland, attached dwellings as a percentage of total dwellings have increased by only 1 percentage point, from 22% to 23%, between the 2006 and the 2013 Censuses. When compared to the 70% of Auckland dwellings that are detached types, attached dwellings, at 23% of the total number of dwellings, constitute a relatively small proportion of Auckland's housing stock.

There has been a slower uptake of intensification in smaller towns across New Zealand, although in some areas, this is now beginning to mirror the faster rate of development in the main centres.

## Demand for MDH

New MDH numbers are expected to increase from the estimated 6,800 per year now by 6% per year, reaching about 10,500 by 2025 (Table 1). Flats and terraced housing to 3 storeys make up much of these at a 60% share of all new MDH in the next 5 years. Next largest in number are retirement village units and apartments, each at 20% share of MDH over the next few years. The former is a mix of flats, apartments and duplexes.

These projected MDH categories can be broken down into construction types – vertically and horizontally attached units. When this is done, the shares in 5 years' time for MDH are 24% vertically attached and 76% horizontally attached.

Horizontally attached units are the majority and are almost all constructed using light timber or steel framing with double stud or concrete walls between separate occupancies.

Housing affordability is, and is likely to continue to be, difficult for many households. Generally, apartments cost more, because at 3 storeys and above, they are usually concrete and/or steel construction and

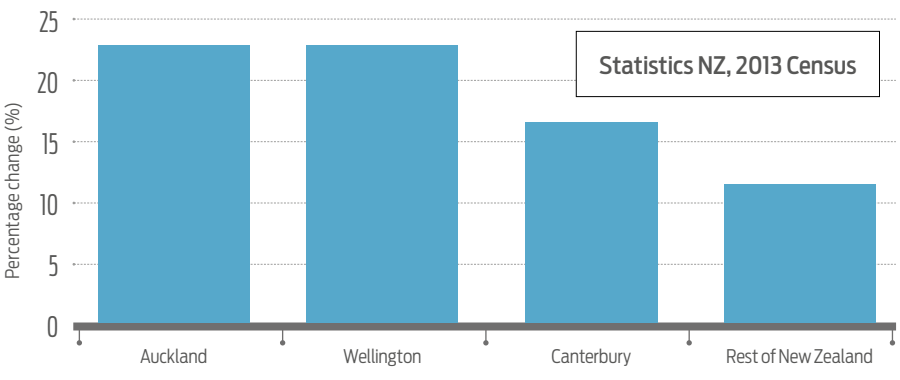


Figure 1. Multi-unit dwellings by region as a percentage of the total New Zealand building stock.

require vertical transportation such as lifts. The most affordable units for median-income households are likely to be flats and terraced houses on the city fringe and outer suburbs, constructed mainly from light timber framing.

## Supply of MDH

The forecasts in Auckland are capped at 13,000 dwelling units per year, up 30% from current levels. This is believed to be the building industry's current upper limit of capacity, assuming mainly local sources of labour and materials. This means there is some unsatisfied demand that will be deferred to future years. This limit will be reached within three years.

Outside of Auckland, sufficient capacity is available to meet the projected demand, and backlogs are quite small. Sufficient land is available in the main centres for new MDH through the planning systems, and these allow for the intensification required for MDH.

Materials are readily available, although concrete requires long lead times and careful planning of work. From time to time, other materials and components, such as fabricated steel and windows, may also be subject to delays.

The main resource constraint is sufficient skilled labour for all building work, including MDH. Carpenters are the main shortage, and this applies to framing, cladding and finishing carpenters and those doing formwork on apartment projects. Should new entrants into the industry exceed current expectations, then industry capacity will be beyond the forecast cap of 34,500 units nationally and 13,000 units in Auckland.

The majority of MDH will be in timber or light steel framing 1–2 storeys high. MDH of 3 storeys and above is likely to be concrete and/or steel construction and represents approximately 28% of future MDH demand. Commercial builders are best placed to do apartments in the 3–6-storey range. They are also doing terraced housing to 3 storeys.

Detached-house builders are also able to do 1–3-storey terraced housing and flats. These projects come in different sizes and offer opportunities for firms to scale up.

## Preferences for MDH

New Zealand's changing demographics and lifestyle preferences have seen the introduction of liveability and quality-of-life goals as fundamental components of many growth management strategies across New Zealand. Following international trends, the idea that quality of life can be maintained or enhanced by living at increased densities has also come to the forefront.

Perceptions of MDH are also shifting as the market delivers more new builds of different types and spatial configurations. It is also increasingly being acknowledged that, because MDH is a diverse category of housing, it suits a wider range of people with differing lifestyle preferences.

Housing experiences also play a big role, with residents more likely to accept a greater range of housing types if they have had prior experience of living in similar types of housing. Access to urban amenities, such as supermarkets, retail outlets, schools, parks, recreational facilities and professional services, also has a strong role to play in quality of life and neighbourhood satisfaction.

**Table 1 Forecast demand for MDH units by type.**

| | actual | | | BRANZ forecasts | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Calendar year** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| Apartments | 998 | 1473 | 1338 | 1474 | 1614 | 1759 | 1829 | 1760 | 1766 | 1826 | 1823 | 1878 |
| Retirement village units | 1438 | 1424 | 1523 | 1670 | 1820 | 1973 | 2041 | 1954 | 1948 | 2000 | 1984 | 2029 |
| Flats/townhouses/ terraces | 2339 | 3144 | 3961 | 4442 | 4951 | 5495 | 5819 | 5704 | 5829 | 6139 | 6249 | 6556 |
| | 4775 | 6041 | 6822 | 7586 | 8385 | 9227 | 9689 | 9418 | 9543 | 9965 | 10052 | 10463 |
| Percentage of housing types that are MDH | | | | | | | | | | | | |
| Apartments | | 58% | 58% | 57% | 57% | 56% | 55% | 55% | 54% | 53% | 53% | 52% |
| Retirement village units | | 75% | 78% | 79% | 80% | 80% | 81% | 82% | 83% | 83% | 84% | 85% |
| Flats/townhouses/ terraces | | 86% | 90% | 91% | 91% | 92% | 92% | 93% | 93% | 94% | 94% | 95% |
| All dwelling units | | 22% | 23% | 24% | 25% | 27% | 28% | 29% | 31% | 32% | 34% | 35% |

Table 1. Forecast demand for MDH units by type.

## Resident demographics

Housing preferences vary depending on the life stages and lifestyle expectations of residents. Favouring security, outdoor entertaining spaces and storage for key life acquisitions are three factors that strongly affect housing preferences. Location preferences are also an important aspect of housing preferences.

The type of residents who are likely to be suited to MDH stock include first-home buyers, young professionals, students, families with children, single-parent families, retirees and empty nesters.

In a 2016 report, Gray Partners Limited noted several demographic groupings currently inhabiting MDH:

> *Professional couples and singles are the mainstay of the suburban multi-unit housing market, including first-home buyers who are able to take advantage of lower deposit requirements for new-build housing. There is also strong interest in medium density housing from investors, especially in areas where net yields are accompanied by strong prospects for capital growth.*
>
> *Post-family households looking to downsize from an existing home are also represented strongly in areas where they can trade down from their existing home and free up capital for other uses.*
>
> *Family households (generally two parent families with one or two small children) make up only a small minority of current multi-unit housing purchasers, and are mostly first-home buyers.*
>
> *We also note that a significant proportion of recent multi-unit sales in suburban and inner residential areas appear to be to 'new [New] Zealanders' [(first and second-generation New Zealanders)], perhaps reflecting high levels of external migration over the past fifteen years.*[1]

To understand the market for MDH, it's important to consider how each factor influences this demographic and the trade-offs they're prepared to make when choosing where to live.

## More information

For further information and analysis, see BRANZ Study Report SR379 *Medium-density housing demand and supply analysis*.

[1] Gray Partners Limited. (2016). Medium density housing research project report. Wellington, New Zealand: Wellington City Council. (p. 1)



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