

**Proposed Plan Change I: Increasing
housing supply and choice**

Economic Assessment



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1 Introduction

This report provides an overview of the anticipated costs and benefits of proposed PC:I relative to the current Multi Unit Housing (MUH) provisions.

PC:I contributes to Clause 3.2 of the NPS-UD by enabling development capacity in the short-medium and long term in new and existing urban areas that encompass standalone and attached dwellings. PC:I is unlikely to be sufficient to cater for total demand for medium density development in Palmerston North City, with further alterations to the planning structure likely to be required over time, to provide for residential development capacity.

In the first instance, PC:I seeks to enable intensification as a permitted activity in parts of the MRZ where stormwater infrastructure capacity is sufficient to support intensification. The performance standards for intensification across the remainder of the zone are also intended to enable higher density residential development relative to the existing MUH provisions but require landuse consent as a restricted discretionary activity to manage any impacts of intensification on stormwater management.

The scale of PC:I is likely to generate incremental changes to the characteristics and distribution of residential growth in Palmerston North's urban area, in locations where accessibility to housing, jobs, education, neighbourhood centres, community infrastructure and public and active transport options, are enhanced.

While the scale and pace of substitution to medium density residential development in the zone is expected to be incremental, changes to the underlying planning structure will drive a range of costs and benefits both at the city level and within the spatial extent of the zone. These effects range from the benefits of greater market choice and lower infrastructure costs relative to greenfield development, to the spatial effects of intensification in the local environment. The costs and benefits to Rangitāne o Manawatū are also important to consider.

2 The costs and benefits of PC:I

The implementation of PC:I will generate economic benefits to households by increasing the range of available housing options. Dwelling typologies available to the market are expected to increase, enhancing market choice from the delivery of a greater range of housing options to households. The range of affordable housing options is also expected to be enhanced as a result of PC:I. In smaller urban economies such as Palmerston North, intensification patterns around centres are more likely to be characterised by medium density attached dwellings. The provisions of the MRZ recognise this, providing for the development of smaller detached dwellings and townhouses, to higher density horizontally attached terraced housing. Limited apartment block development is anticipated due to the characteristics of market demand in the city, with current demand for higher density housing continuing to include vehicle access and garaging.

The areas proposed for intensification within the MRZ are concentrated around key infrastructure and services, enhancing living standards for households residing in these locations. Proximity to employment and education opportunities, neighbourhood centres, community infrastructure including parks and reserves, and active and public transport

options will ensure accessibility for families. Costs of transportation to work and school are likely to be minimised at the household level, supporting the living standards of households and communities over time. The concentration of communities around places of work and school, with enhanced access to active and public transport networks will put downward pressure on carbon emissions from the growing population. The reduced infrastructure requirement to enable development in the MRZ relative to greenfield development, will also put downward pressure on carbon emissions, while also supporting the affordability of housing in the city.

Areas of the city that are not accessible to key infrastructure and services, are not included within the MRZ; thereby, limiting the scale and dispersion of medium density housing in areas less appropriate for residential intensification across the city. Appropriately limiting this development in outer suburban areas helps to reduce the dilution of this demand away from centres.

Providing options for residential development in appropriate areas within the existing urban environment also delivers an affordable alternative to greenfield development toward the outer limits of the city. The concentration of growth into the accessible areas identified within the MRZ, enables more efficient infrastructure provision, offsetting the requirement for investment in networks required to serve more dispersed patterns of growth.

As set out in Appendix A of the Development Capacity Assessment, a limitation of the development capacity modelling is the absence of the consideration of the margin between the cost of construction and the market price for differing housing typologies (therefore, the return on investment), on the development decisions of residential developers in the city. Historical data and feedback from local developers indicates that developers will not develop affordable housing on more expensive pieces of land due to the lower return on investment from this type of development. The enabling of higher density development in areas with higher land values, is likely to increase the commercial feasibility of medium density development in these higher value locations, with the benefit of providing more affordable housing options to a greater range of families wishing to reside in these areas.

2.1 Housing equity

Housing equity will be enhanced by enabling higher density development around nodes of high amenity in proximity to places of employment and education, and with enhanced access to transportation and community infrastructure. Enabling higher density housing development in areas of low deprivation will also support housing equity by providing more affordable options to households wishing to reside in these areas.

Table 1 summarises the theoretical development capacity in the MRZ by SA2 and deprivation ranking. A lower deprivation score indicates a lower level of deprivation while a higher score indicates higher levels of deprivation in the area. The SA2s in the MRZ are ranked from areas of lowest deprivation to highest deprivation.

Table 1: Deprivation ranking and theoretical development capacity in the MRZ by SA2

Deprivation rating	Statistical area unit	Theoretical Development Capacity
2	Ruahine	45
3	Hokowhitu Central	284
3	Hokowhitu East	445
4	Milson North	4
4	Awapuni South	239
6	Palmerston North Hospital	180
6	Ruamahanga	73
7	Milson South	71
7	Takaro South	125
7	Esplanade	283
7	Hokowhitu South	178
8	Takaro North	230
8	Awapuni North	253
8	Milverton	172
8	Papaioea South	190
9	Westbrook	18
9	Roslyn (Palmerston North City)	151
9	Terrace End	138
9	Papaioea North	308
9	West End	183
10	Highbury East	92
10	Palmerston North Central	16

There is substantial theoretical capacity for development of medium density development in areas of low deprivation in the city, mostly occurring inside the proposed Stormwater Overlay within the MRZ.

The development of PC:I has highlighted the constraints on intensification in parts of the city where the social return of housing is likely to be higher, for example, areas of high deprivation where good quality, higher density housing would deliver substantial social benefits to the community. Development in some of these areas is constrained by a lack of capacity in the stormwater network, resulting in the potential for ponding and flooding. Some of these areas are within the Stormwater Overlay area of the proposed MRZ, including some of the communities of interest to Rangitāne o Manawatū (RoM).

3 Costs and benefits to Rangitāne o Manawatū (RoM)

The NPS UD (Objective 1, policy 1 (ii)) cites the objective to “enable Māori to express their cultural traditions and norms”, and to “take into account the values of aspirations of hapū and iwi for urban development” in accordance with the principles of Te Tiriti o Waitangi. This includes the Rangitāne o Manawatū Settlement Act (2016). RoM further highlights the importance of housing as a key outcome within the ‘Rangitāne Environmental Management Plan (2021)’. Specifically, RoM cite their goal that “Whānau can afford to buy and rent houses, in locations that allow them to fully interact within the community.”

The communities of interest to RoM are located both within and outside the proposed MRZ, in the Stats NZ SA2 areas of Awapuni North and South, Highbury East, Takaro South and North, West End, Park West and Westbrook. Table 2 outlines the development potential and status of the SA2s within the RoM community of interest, as they relate to PC:I. This includes development capacity inside and outside the proposed MRZ extent, as well as differentiation by stormwater overlay within the MRZ.

Table 2: Theoretical development capacity by RoM communities of interest

Statistical area unit	Total theoretical development capacity outside Stormwater Overlay	Theoretical development capacity inside Stormwater Overlay	Theoretical development capacity
Awapuni North	0	253	253
Awapuni South	7	232	239
Highbury East	0	92	92
Takaro South	0	125	125
Takaro North	0	230	230
West End	136	47	183

Statistical area unit	Total theoretical development capacity outside Stormwater Overlay	Theoretical development capacity inside Stormwater Overlay	Theoretical development capacity
Park West	0	0	0
West Brook	0	0	0
Total	144	726	870

The majority of development enabled by PC:1 within RoM communities are located within the proposed Stormwater Overlay for the MRZ. West End and Awapuni South are the only SA2 RoM communities located outside of the proposed Stormwater Overlay. Park West and West Brook are excluded from the proposed MRZ due to their separation from large employment and education opportunities, community centres, and active and public transport options.

Residential intensification in the Residential Zone will continue to require a Discretionary Activity resource consent. This is more restrictive than the consent requirements in the MRZ for development within the Stormwater Overlay. This will affect RoM's communities of interest in Park West and West Brook.

For Awapanui South and West End, located in the MRZ, residential intensification up to 3 residential units will not require a resource consent, as these areas are located outside the Stormwater Overlay. This will enable RoM to intensify in these areas, supporting RoM to achieve their housing objectives.

Residential intensification inside the Stormwater Overlay however, will require a resource consent. While RoM has expressed their support for this approach as it manages the impacts of flooding on their communities of interest, they do not consider this a long-term solution due to limitations this places on the housing development options available to RoM. This is contrary to RoM meeting their housing objectives for their communities but at the same time, recognises the importance of developing housing in “*appropriate areas that are safe from natural hazards, avoiding areas that are within 100 m of the Manawatū Awa, 20 m of streams, and avoiding areas that are adjacent to the coastal area*” (RoM Environmental Management Plan, p45, 2021).

Proposed policy MRZ-P7 seeks to address constraints on intensification in the stormwater by:

“Avoid development in the Stormwater Overlay unless the Council is satisfied that a site-specific stormwater management plan prepared by a suitably qualified stormwater design consultant (preferably with experience in water sensitive urban design concepts and elements) identifies:

1. *the location, scale and nature of the development proposed for the site;*
and
2. *the extent of flood and/or overland stormwater flow hazards;*

3. *the on-site and off-site effects of the proposed development on people, property and the environment;*
4. *recommended mitigation measures to remedy or mitigate the on- and off-site effects of the development; and*
5. *demonstrates that the on- and off-site adverse effects of flooding on people,"*

These policies and the associated rules provide a development pathway for RoM while also contributing to the safety of their communities, but they come at a cost. Affordability as well as the scale of development able to be achieved within their communities of interest may be negatively affected. Mitigation costs borne by RoM, and restrictions likely to be present due to sufficient network infrastructure will result in suboptimal outcomes from a social perspective, placing a barrier on RoM achieving their housing goals.

Achieving the housing outcomes sought by RoM relies on unlocking development potential within locations that allow for Rangitāne to fully interact within the community. Hence, the additional requirements placed on development within the proposed Stormwater Overlay of the MRZ, imposes a social cost on both RoM and Palmerston North as a whole.

Enabling residential intensification in areas where the social return on investment in quality, affordable housing is highest will maximise the benefits of residential intensification and deliver significant social benefits to both RoM and the wider Palmerston North community.

4 Built form standards – consideration of costs and benefits

PC:1 seeks to ensure the future amenity of the MRZ by retaining discretion over factors that contribute to both on-site and wider urban amenity. Table 3 provides a brief discussion of the potential benefits and costs of proposed provisions.

Table 3: Built form standards - qualitative assessment of benefits and costs

Areas of focus	Summary of permitted activity provisions	Discussion	Benefits/costs
The number of stories in height of residential buildings.	Residential buildings must not exceed 11 m or be more than three stories in height	Supports appropriate housing densification in the city, without enabling large scale vertically stacked apartments that are inconsistent with the urban environment of the city.	Contributes positively to the amenity of the zone while enabling greater land use efficiency. Net benefit.

Areas of focus	Summary of permitted activity provisions	Discussion	Benefits/costs
The provision of appropriately sized and located private outdoor space, and privacy and access to daylight	<p>Appropriate outdoor space by dwelling type located to the north, east or west of the building.</p> <p>Daylight provisions will also support energy efficiency outcomes by optimising solar access.</p>	<p>Provides clear guidance on the expectations for outdoor space and outlook space.</p> <p>Contributes to the visual aspect in addition to the well-being of residents of the zone over time.</p>	<p>There will be costs associated with providing outdoor and outlook space. With higher density residential development, it may be difficult to provide for outlook space on some sites. Yields by site may be affected.</p> <p>The provisions will contribute to the overall amenity of the zone with a potential trade-off to scale.</p> <p>Monitor to ensure benefits exceed costs over time.</p>
Landscaping	<p>Ground floor residential buildings must have a landscaped area of grass/plants covering 20% of the site. Where a site fronts a public road, >30% of the landscaped area must be located in the front yard.</p> <p>A 1.5m setback requirement accompanies this standard.</p>	<p>Consistent with the development of high amenity urban areas with sufficient on-site permeability.</p>	<p>Requirements are clearly signalled for incorporation at the design phase.</p> <p>Net benefit.</p>
Siting and scale of garages, carparking, fencing and bike storage	<p>Limits on width of the garage to the extent of the façade or street frontage.</p>	<p>Observed market demand for medium density dwellings in the city includes</p>	<p>The garaging and manoeuvring requirements are consistent with observed market</p>

Areas of focus	Summary of permitted activity provisions	Discussion	Benefits/costs
	<p>Appropriate on-site manoeuvring</p> <p>Fencing =< 1.8m</p> <p>1 secure bicycle park per residential unit</p>	<p>garaging and on-site manoeuvring.</p> <p>Fencing requirements are standard.</p> <p>Provision is limited in cost. May not be appropriate in all cases.</p>	<p>demand and will contribute to the amenity of the urban environment, as it relates to Palmerston North.</p> <p>The requirement to provide bike storage may not be appropriate in all cases. The ability to provide storage within existing garaging supports net benefit of the provision.</p>
Water quality and water sensitive design	<p>Site coverage = 50%</p> <p>30% permeable surface</p> <p>On-site stormwater attenuation device</p> <p>Minimum finished floor levels to be at an appropriate level for the site</p> <p>Copper or zinc cladding and/or roofing materials are sealed or finished to prevent runoff</p>	<p>Well signalled to support informed decision making at the planning stage.</p> <p>Attenuation tanks could add an estimated \$2,000 to the cost of development, depending on the size. The cost of a stormwater attenuation device varies depending on the site requirements and constraints.</p> <p>Stipulation of the minimum finished floor level would be assigned at subdivision or building consent stage, allowing appropriate levels to be assigned by site and ensuring the site-specific</p>	<p>The standards impose a tradeoff to the level of intensification able to be absorbed within the MRZ, but are necessary to ensure a high quality and resilient urban environment over time.</p> <p>Water quality and water sensitive design delivers a range of social and environmental benefits including reducing flooding risk, improved water quality and ecological health of waterways and receiving environments, reduced load on wastewater and stormwater systems</p>

Areas of focus	Summary of permitted activity provisions	Discussion	Benefits/costs
		<p>requirements can be incorporated through the design phase.</p> <p>Treated copper and zinc building materials are available, as are alternative cladding and roofing materials.</p>	<p>and a reduction in treatment costs. Rain tanks will also provide an alternative non-potable water source for on-site irrigation reducing costs associated with potable water treatment. Installation costs are minimal and can be planned for at the design stage.</p> <p>The provisions are consistent with climate change adaptation and increasing the resilience of the urban environment to more intense rainfall patterns.</p> <p>Overall net benefit to the quality of the urban environment</p>

5 Conclusion

I consider that PC:I will contribute positively to residential urban development in Palmerston North. The development of the MRZ will provide for a greater range of housing options to households, enhancing choice and the affordability of home ownership, across a range of urban locations in the city. PC:I also enables higher density development relative to the provisions of the ODP. In particular, PC:I will provide for intensification around centres and in central areas of high accessibility, enabling dwellings to be constructed on smaller sites and including a greater range of medium density attached housing options. This outcome will contribute positively to housing affordability within the Palmerston North urban area, in addition to delivering benefits to the communities in proximity to employment and education, as well as community centres, and active and public transport links.

The proposed MRZ extent was determined by the identification of the areas of highest accessibility, contributing positively to urban form outcomes and avoiding dilution of higher density development to locations away from centres and community infrastructure.

The provisions associated with the proposed Stormwater Overlay seek to manage the risks of flooding in more vulnerable areas of the urban environment, while enabling increased housing density where risks can be mitigated. I consider this an appropriate mechanism for optimising the social and economic benefits of higher density residential development, while managing the risks imposed by limited network stormwater capacity.

PC:I will not provide for total demand for higher density development in Palmerston North over the long term; but instead serves as an enabler for medium density development in the most appropriate locations across the city in the first instance. The additional requirements placed on development within the proposed Stormwater Overlay may impact on communities by reducing the scale of development possible in areas where the social benefits of quality, medium density residential housing are high. On this basis, it is recommended that appropriate opportunities for further enabling higher density residential development in the city, are explored.

The proposed standards of the MRZ take due consideration of the nature of medium density development in Palmerston North City, enabling intensification to an appropriate suburban scale. Current trends indicate the continuation of demand for horizontally attached and detached dwellings on smaller sites, largely retaining vehicle access and garaging across the urban environment. This scale of urban development is consistent with smaller city urban economies. . At the same time, the plan proposes to enable three-storey residential development as a permitted activity recognising the potential for shifts to market demand towards vertical intensification. This includes single dwellings on smaller sites or apartment style residential development, with the potential for residential development of above three-stories considered through the resource consent process. While current market demand suggests the preference for horizontal intensification, residential Land-use efficiency and stormwater management is likely to be enhanced by enabling vertical intensification at a scale that is consistent with the urban environment of Palmerston North. PC: I is responsive to these potential shifts in market demand within the context of the Palmerston North urban economy.

Finally, PC:I delivers the most appropriate current solution to providing for higher density residential development in Palmerston North City. The scale of PC:I renders the impacts on urban amenity by area minimal to moderate, with the transition from low to higher density expected to be incremental. I consider the proposed standards to be practicable and appropriate to support the high amenity characteristics of the zone, balancing the objectives of affordability and market choice, with the development of high amenity urban environments over time.

Appendix A. Assumptions and limitations of the model

A discussion of the assumptions and limitations of the capacity assessment is included below. Measures taken to manage the limitations of the model, are included within chapter 1 of this report:

Assumption	Limitation	Comment
Lots equal to, or greater than 700m ² can theoretically be redeveloped.	Assesses redevelopment potential as opposed to additional development. Conservative assessment of land available for development/redevelopment by assuming lots < 700m ² are inappropriate for redevelopment.	Intentionally conservative due to the difficulty of including the consideration of all factors that influence redevelopment decisions.
Assumes average site area per additional dwelling will be 150m ² .	PC:I does not propose a minimum lot size with a total of 3 dwellings permitted to be built on a site as a permitted activity if compliant with the permitted activity standards. will enable 3 dwellings to be built on a 150m ² site as a permitted activity if they comply with permitted activity standards.	While PC:I does not impose a minimum lot size, it is unlikely that enabling medium density will result in average site areas below 150m ² with city market demand continuing to favour development of residential sites with parking and garaging.
Commercial feasibility of development assessed at a LCR of between 0.87 – 0.99.	Conservative assumption used as a basis for assessing commercial feasibility may understate the area of land that will be considered commercially feasible to develop.	This is a common way of estimating commercial feasibility. Council is currently investigating options for assessing the cost of development versus the price, and return on investment for different typologies in the city, as a means of measuring commercial feasibility.

Assumption	Limitation	Comment
<p>The model aggregates the areas of land => 700m² and with a lv/cv ratio of between 0.87-0.99 as a basis for estimating the amount of land available for redevelopment.</p>	<p>Aggregation of land assumes redevelopment and does not consider opportunities for an extension of development on the site. As a basis for theoretical development capacity, it is reasonable.</p>	<p>Footprint analysis to understand areas of land available for further development on existing residential sites, is currently being discussed as part of the review of the capacity assessment methodology for the 2027 HBA.</p>
<p>That development will follow the percentage of supply by area.</p>	<p>The model assumes that development by SA2 will follow the percentage of overall supply available by SA2. For this reason, the SA2 calculations are indicative only with demand expected to diverge from expected development by area. This assumption also ignores incentives to develop in areas that are enabled through the plan change.</p>	<p>Development scenarios which seek to manage this limitation are included in the sensitivity modelling.</p>
<p>Assumes development volumes will continue as per the long term average.</p>	<p>Ignores the trend toward greater medium density development over time.</p>	<p>Development scenarios which seek to manage this limitation are included in the sensitivity modelling.</p>
<p>Excludes the consideration of social return by area.</p>	<p>PC:I excludes areas based on stormwater constraints where the benefits of enabling intensification may be greater, for example, in high deprivation areas or areas of interest to Rangitāne for future development.</p>	<p>There are areas of the MRZ where development potential is impeded by insufficient stormwater infrastructure capacity to support growth. These areas include some areas of high deprivation such as Highbury East and Tremaine. A stormwater strategy is currently being developed to determine the infrastructure needed to enable growth in additional areas. The strategy is scheduled to be completed in 2026.</p>

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