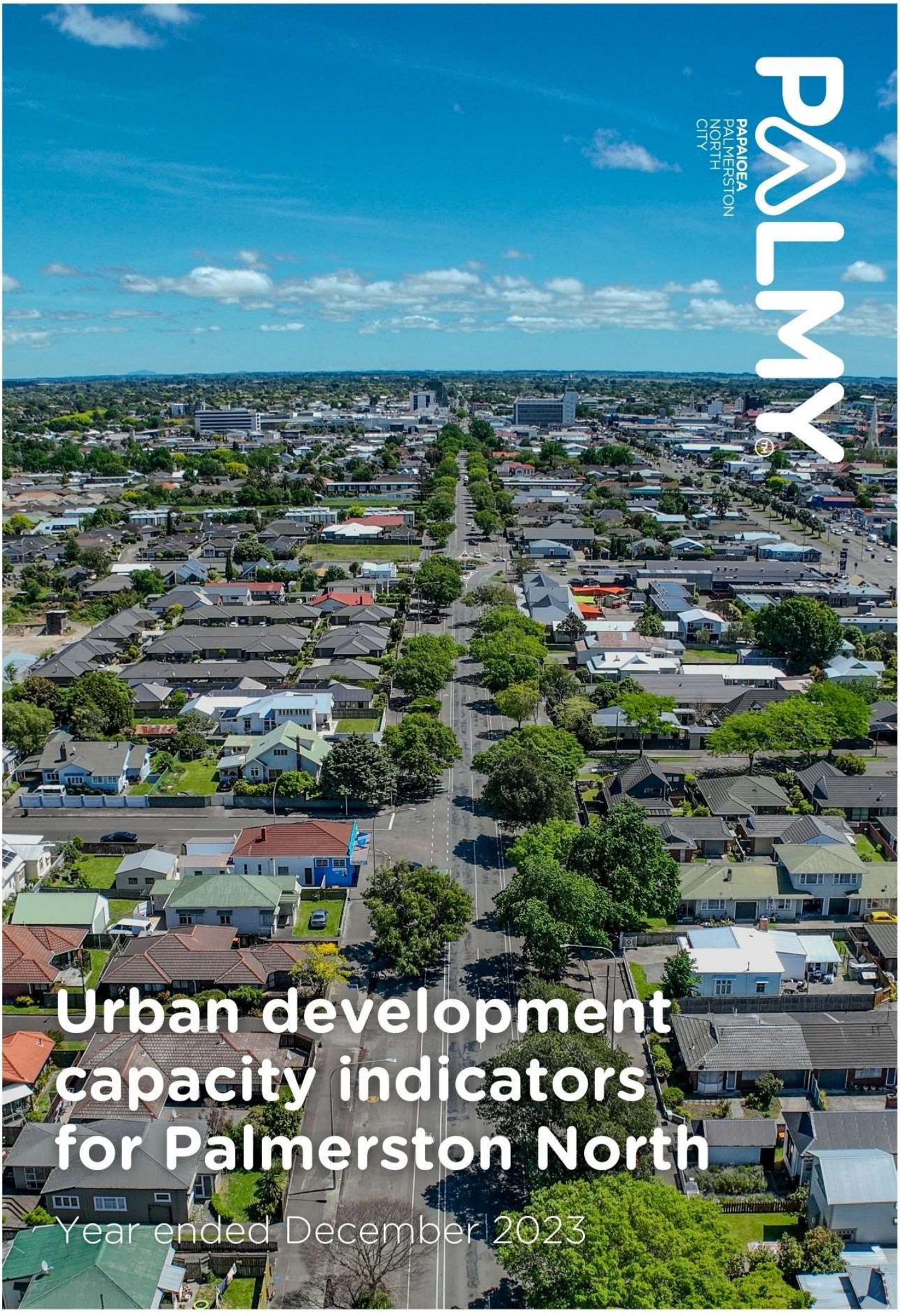


Urban development capacity indicators for Palmerston North

Year ended December 2023

Urban Development Capacity Indicators for Palmerston North

Year ended December 2023

Table of Contents

Introduction

1. As a Tier 2 local authority, Palmerston North City Council monitors quarterly:
    - The demand for dwellings
    - The supply of dwellings
    - Prices of, and rents for, dwellings
    - Housing affordability
    - The proportion of housing development capacity that has been realised:
        - In previously urbanised areas (such as through infill housing or redevelopment);
        - In previously undeveloped (i.e. greenfield areas)
    - Available data on business land.

2. Monitoring provides robust and frequently updated evidence-based information that can be used to inform planning decisions, future development strategies, infrastructure planning, and to ensure at least sufficient development capacity is enabled at all times.

3. This annual publication report on development over the 2023 calendar year is a requirement under the National Policy Statement on Urban Development 2020 (NPS-UD).

4. Information is gathered from various sources such as Stats NZ, Ministry of Housing and Urban Development's urban development dashboard, Palmerston North City Council and Kainga Ora – Homes and Communities building consent information, Ministry of Business, Innovation and Employment data on rental bonds, Infometrics, Real Estate Institute of New Zealand (REINZ), Corelogic, and QV.

5. For further information, please contact: Strategic Planning Group, Palmerston North City Council, Private Bag 11034, Palmerston North 4444 (Phone: 06 356 8199).

Part A:

Housing demand and supply

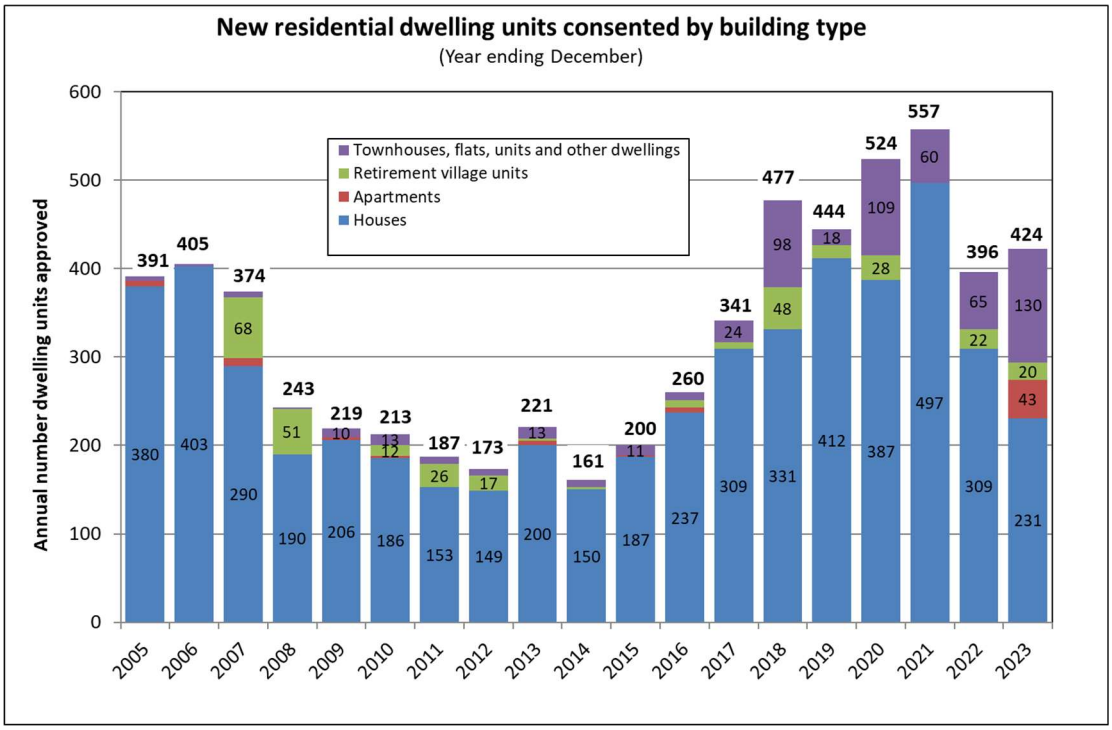
Demand for dwellings

6. The recent Palmerston North Housing and Business Development Capacity Assessment Report (2023) estimates that short term demand within the next 3 years (ie. 2024, 2025, 2026) is 983 (inclusive of the 20% competitiveness margin) or an average of **328** dwellings per year.

Supply of dwellings

New dwellings consented

7. The chart below provides the number of new dwellings consented. This represents the City's housing supply based on granted building consents for new dwellings from 2005 – 2023. For year ending December 2023, there were 424 new dwellings consented, of which 130 were townhouses/flats (the highest on record) and 43 were apartments (the highest on record). The three-year average of new dwellings consented is 459 dwellings.

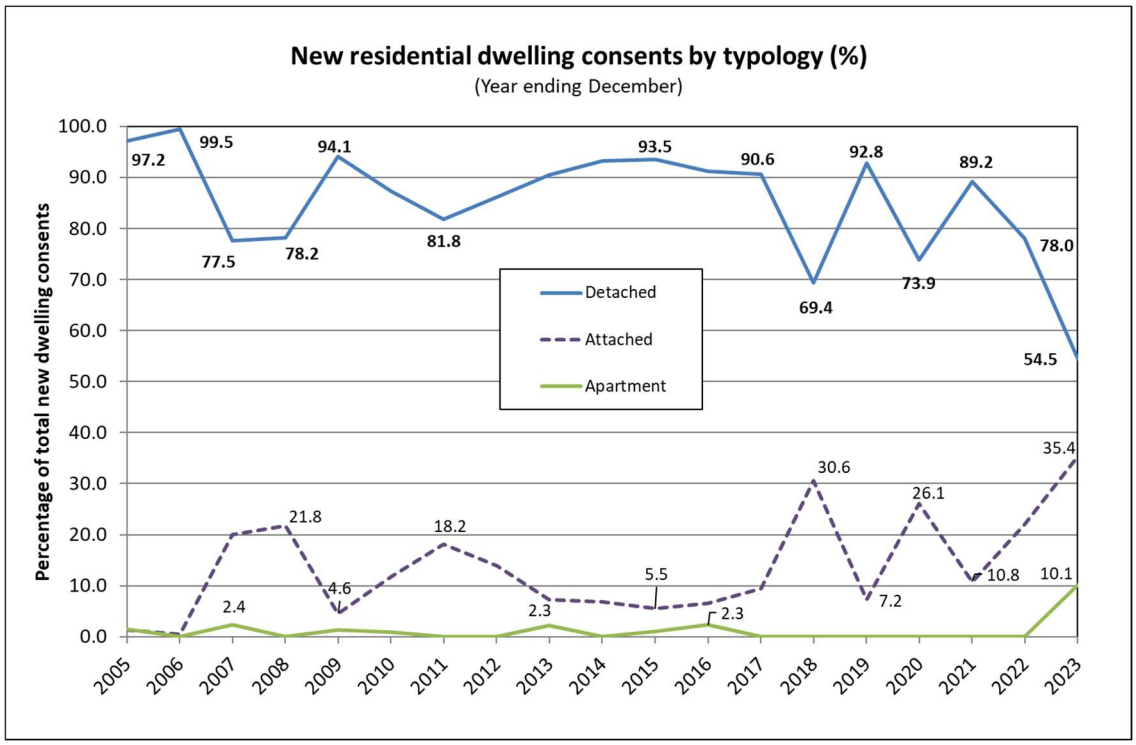


Source: Stats NZ

8. These figures above are approximations because it includes relocatable houses (some of which will be relocated outside of Palmerston North); these houses have not been built (ie. some of these projects may be abandoned); and some houses may be demolished or removed. The section on "Realised housing capacity" (see paragraph 27) includes the estimates of net gain in dwellings after taking into consideration factors mentioned above.

9. In 2023, detached houses made up 55% of total new consents, the lowest ever. This is mainly due to record high numbers of attached dwellings (ie. townhouses, flats, and others; and retirement village units) and apartments. The chart below shows a breakdown, by percentage of new dwellings by type from 2005 to 2023 consisting of the following:

    - 55% Detached – consisting of "houses", including relocatables
    - 35% Attached – consisting of "townhouses, flats, and other" and "retirement village units"
    - 10% Apartments

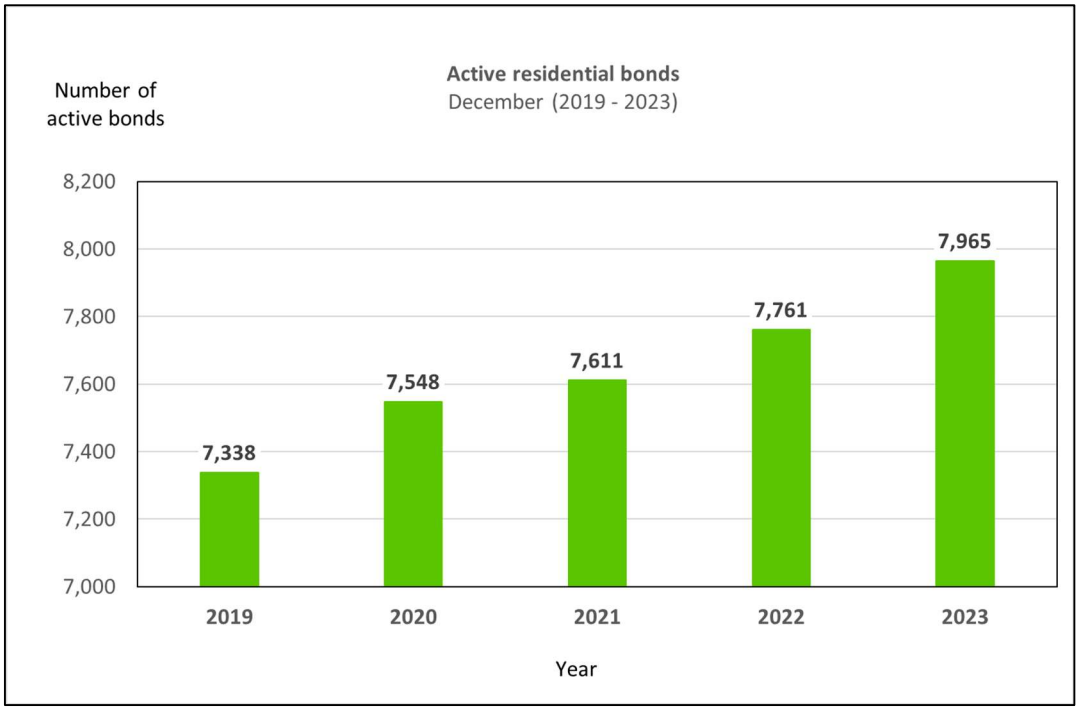


Source: Stats NZ

Change in rental supply

10. Monitoring of rental supply is undertaken by looking at data published by Ministry of Business, Innovation and Employment (MBIE) consisting of the number of active tenancy bonds lodged by private landlords with MBIE. The bar chart below shows that the total active residential rental bonds in month of December for years 2019-2023 (based on data updated until May 2024). The annual increase between December 2022 and December 2023 was 204. Over the past 3 three years, the average increase was 139 per year.

11. The increase in active rental bonds means that more properties are rented out in December 2023 compared to December 2022. The increase in active rental properties could be from properties that have been recently completed or existing properties.



Source: MBIE

Conclusion: Demand and supply

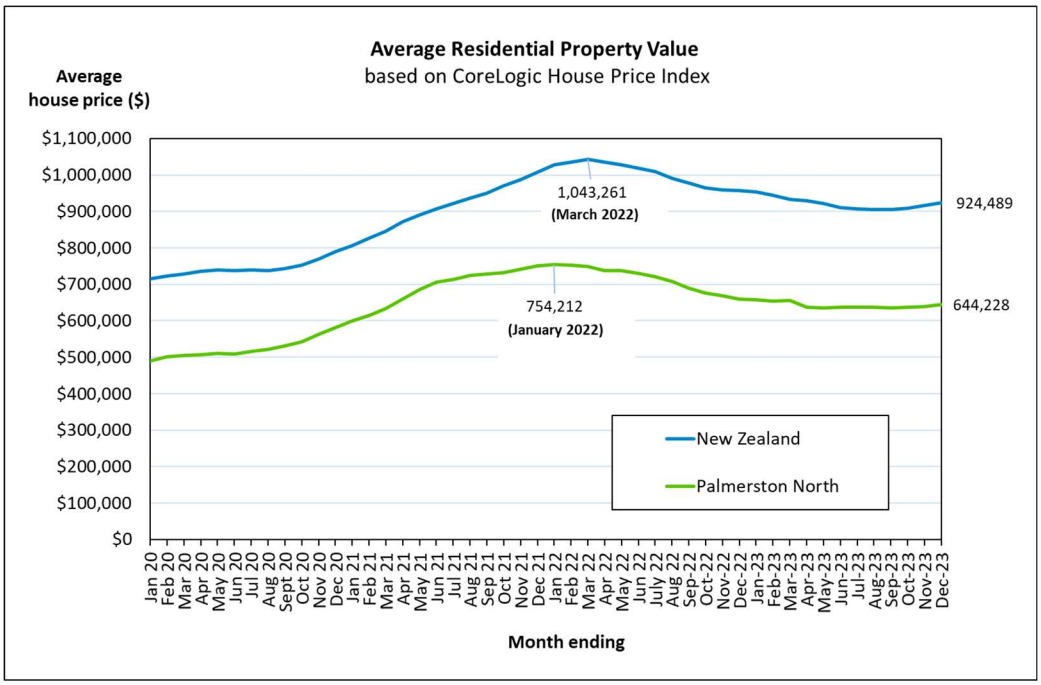
12. For the year ending 2023, the estimated annual demand of 328 dwelling/year is matched by the 424 new dwellings consented.

Price and rents of dwellings

Average residential property value

13. House prices are monitored by looking at average house values from Corelogic's housing price index[1]. The average house value in Palmerston North peaked in January 2022 at $754,212, and the national average peaked at $1,043,261 in March 2022. By December 2023, the average house values in Palmerston North was $644,228 representing a 2.3% decline (amounting to $15,222) compared to December 2022. The average house values in New Zealand was $924,489 representing a 3.3% decline (amounting to $31,894) compared to December 2022.

[1] This is sales price appraisal ratio (SPAR) index - meaning it applies the performance of recent sales to the entire base of properties in an area to measure how market movements have affected all properties and presents the average house value based on prices of houses sold.

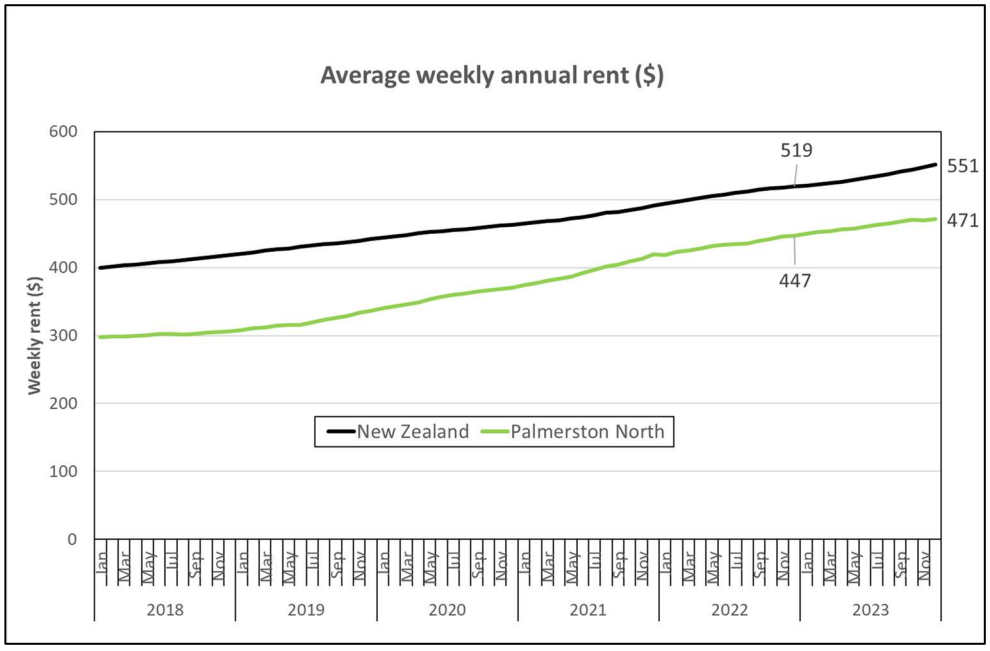


Source: Corelogic

Average weekly private sector rents

14. Rents are monitored by looking at rental price data published by MBIE. The data consists of the average rent of actual bonds lodged by private landlords with MBIE. This series present the actual price of newly acquired rentals. There is no distinction between furnished and unfurnished properties in bond data which can influence the price of rentals.

15. The following chart presents the average weekly rent in Palmerston North based on data updated until May 2024 on data released for May 2024. For year ending December 2023, the average weekly rent increased to $471/week (5.3% increase) from $447/week for year ending the December 2022. National average weekly rent increased from $519/week (6.2% increase) to $551/week during the same period.



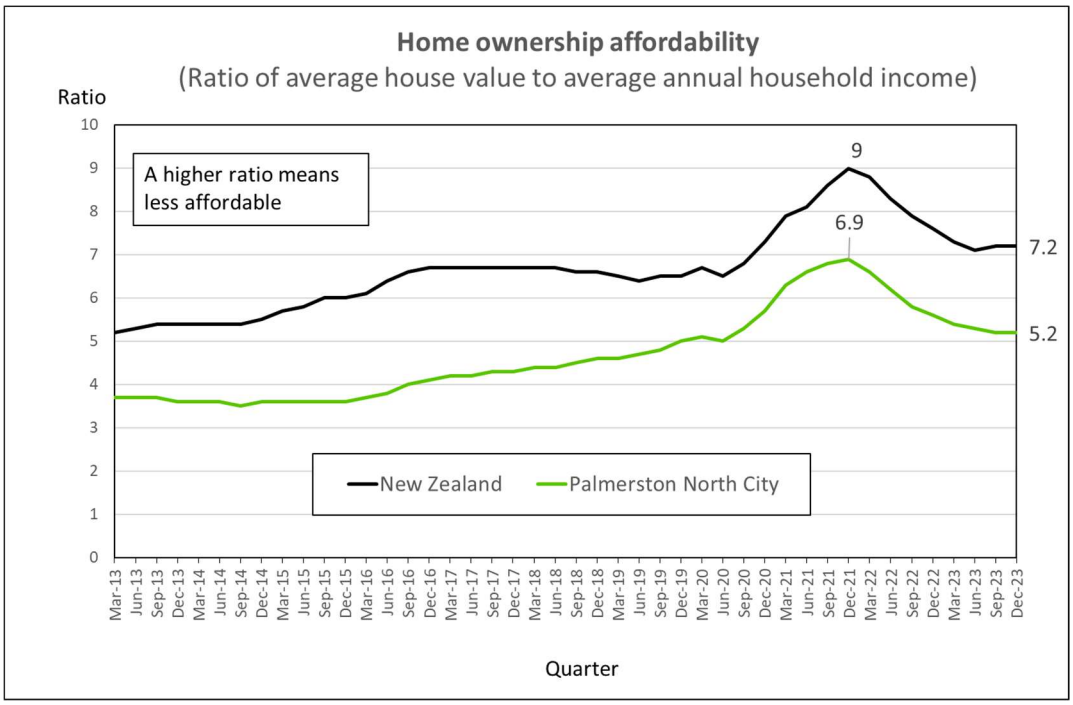
Source: MBIE

Housing affordability

Home ownership

16. Home ownership is monitored based on an indicator from Infometrics on the ratio of average house value to estimated annual average household income. A lower ratio means it is more affordable to own a home.

17. In December 2023, the average house price in Palmerston North was 5.2 times the average household income, a decrease from 5.6 the year before. In New Zealand this ratio was 7.2 in December 2023 compared to 7.6 the year before. Generally, it is more affordable to own a house in Palmerston North compared to the national average.

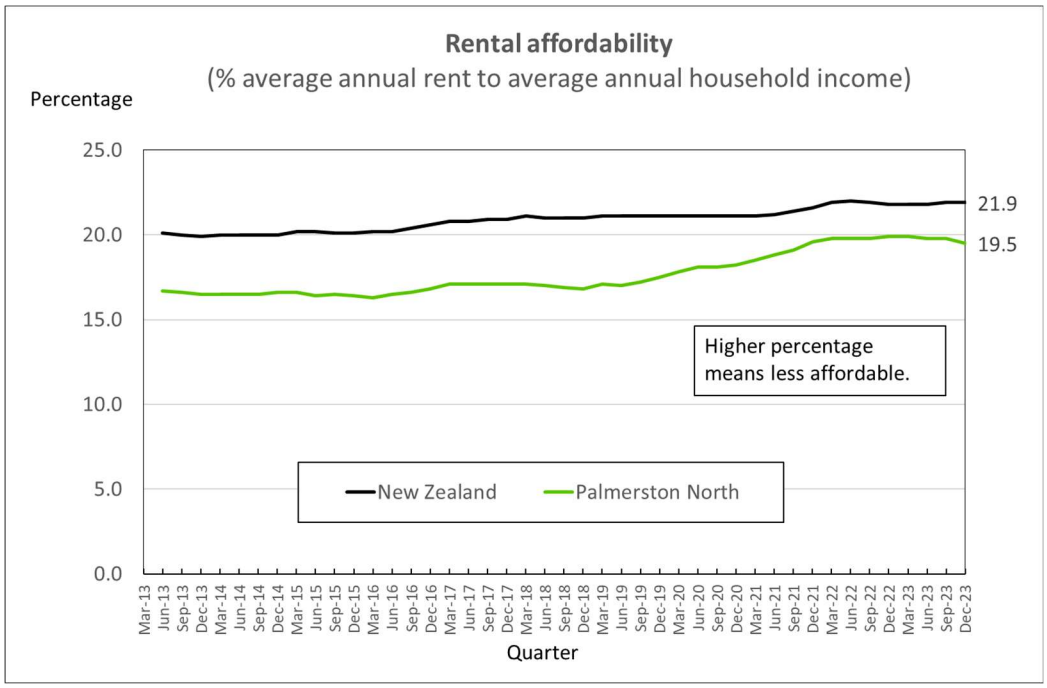


Source: Infometrics

Rental affordability

18. Rental affordability is monitoring by looking at an indicator from Infometrics on the percentage of average annualised rent to estimated average annual household income. A higher percentage means it is less affordable to rent. Generally, it is more affordable to rent in Palmerston North compared to the national average.

19. As at December 2023, the average annual rent in Palmerston North as percentage of annual average household income has decreased to 19.5% from 19.9% in 2022. In New Zealand, it has increased slightly to 21.9%, from 21.8 in 2022.



Source: Infometrics

Change in Housing Affordability Indicators

20. The Change in Housing Affordability Indicators (CHAI) available in the Ministry of Housing and Urban Development website[2] provides three indicators on housing affordability for people entering the market for the first time. The indicators compare growth in median household disposal income in relation to house sale prices (for saving a deposit); house sales prices and mortgage rates (for servicing mortgage), and rental prices (for renting a home).

Limitations of CHAI

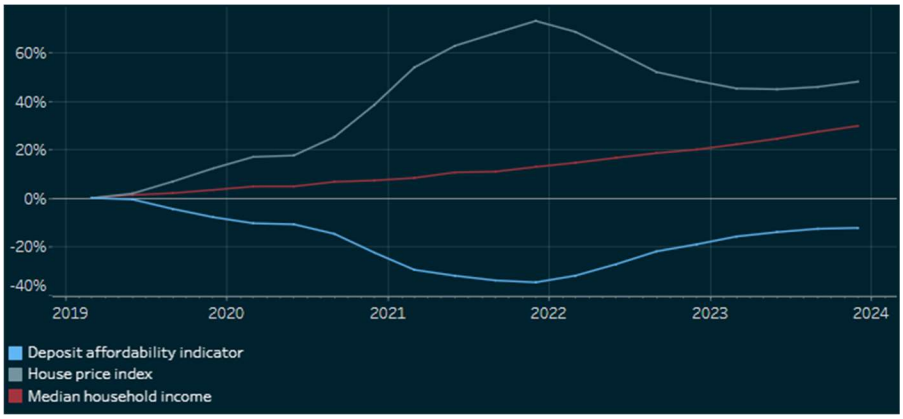
- Households not experiencing median income growth or paying different interest rates will experience different changes in affordability - because the indicators compare the change of median incomes with overall house and rent movements, and average interest rates.
- It is not possible to compare the level of affordability between areas – because the indicators track whether affordability is improving or worsening in an area but not how affordable an area is at a point in time.
- Some indicators are affected by seasonal change (eg. rent prices tend to peak in the first quarter of each year). For short term analysis, it may be better to compare with the same period the year before.
- The median household income data is estimated using tax data and are revised as further income data becomes available, especially for recent quarters.

Source: Ministry of Housing and Urban Development

[2] About the Indicators - Te Tūāpapa Kura Kāinga - Ministry of Housing and Urban Development (hud.govt.nz)

21. The blue line in the chart below shows the change in deposit affordability indicator from March 2019. A higher (ie. more positive) indicator percentage means that it is more affordable. The deposit affordability indicator showed gradual decline until December 2021 when it gradually improves. Compared to March 2019, it was less affordable to save for a deposit in December 2023. The decline can mainly be explained by house prices (grey line). As house prices declined in December 2021, there was gradually improvement in deposit affordability.

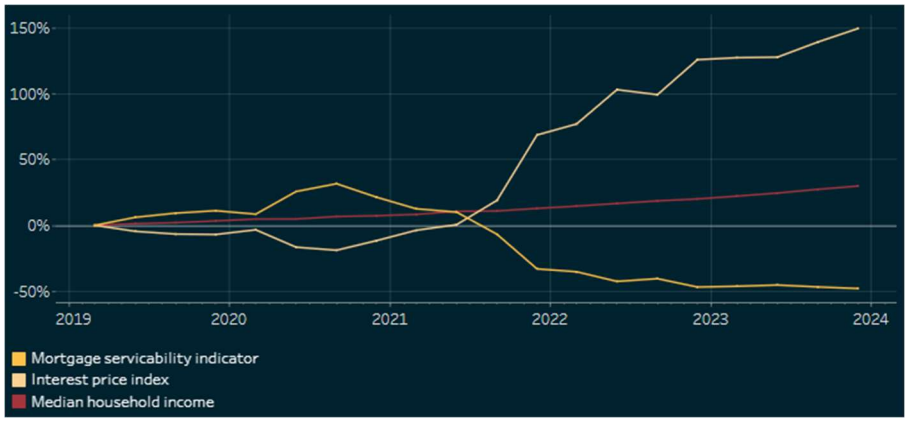
Change in deposit affordability indicator, house price index and median household income in Palmerston North (March 2019 – December 2024)



Source: Ministry of Housing and Urban Development

22. The mortgage serviceability indicator (bright orange graph) below showed overall improvement from March 2019 to September 2020. This is negatively correlated with the interest price index (pale orange line graph). Mortgage serviceability improved further from March 2020 due to monetary policy to stimulate the economy in respond to the Covid-19 pandemic. Mortgage serviceability began to decline from September 2020 as interest rates began to rise. By September 2021, mortgage serviceability was less affordable than in March 2019. The decline continued until stabilising in December 2023, mainly supported by the sustained growth in median household income (red line graph) which offset the continued rise in interest rates. Compared to March 2019, it was less affordable to service mortgage in December 2023.

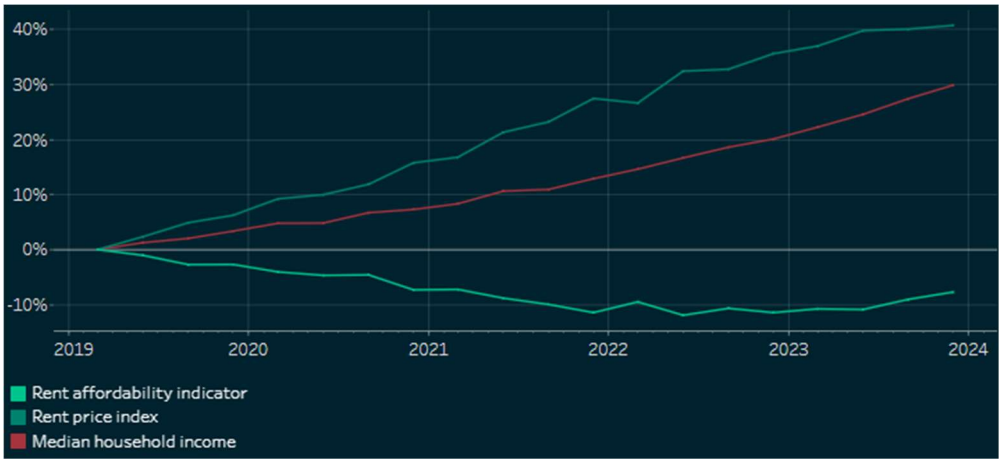
Change in mortgage affordability indicator, interest price index and median household income in Palmerston North (March 2019 – December 2024)



Source: Ministry of Housing and Urban Development

23. The rent affordability indicator (green line graph) at the bottom of the chart below shows declining trend in rental affordability. This is mainly driven by the increasing trend in the rent price index (dark green line graph). The rent affordability indicator has stabilised for about a year from June 2022 to June 2023 and began to improve mainly due to net increase in household disposal incomes (red line graph) over increasing rent prince index. Compared to March 2019, it was less affordable to rent in December 2023.

Change in rent affordability indicator, rent price index and median household income in Palmerston North (March 2019 – December 2024)



Source: Ministry of Housing and Urban Development

Realised housing capacity

24. Based on the Housing Business Development Capacity Assessment 2023 (HBA 2023), there were 2,053 units of available housing land *('whether they are plan-enabled, infrastructure-ready, and commercially feasible and reasonably expected to be realised")* over the short term (ie. within next 3 years). The annual average availability is 684. The following table shows the breakdown of estimated short term supply of land by housing location.

Estimated short term supply of land

Housing location	Short term supply within next 3 years		
	%	Total (units)	Annual average
Greenfield	26	528	176
Existing urban environment	68	1,408	469
Rural	6	117	39
Total	**100**	**2,053**	**684**

Source: HBA 2023

25. The available land for housing exceeds the estimated demand for dwelling in the short term (within next 3 years inclusive of 20% margin) of 983, or annual average of 328, for all the housing locations. See the table below for breakdown of estimated short term demand by housing location.

Estimated short term dwelling demand: Housing location

Housing location	Short term demand within next 3 years		
	%	Total	Annual average
Greenfield	40	393	131
Existing urban environment	55	541	180
Rural	5	49	16
Total	**100**	**983**	**328**

Source: HBA 2023

26. The following table shows the breakdown of estimated short term demand by housing type.

Estimated short term housing demand: Housing type

Housing type	Short term demand within next 3 years		
	%	Total	Annual average
Standalone (detached) dwelling	88	865	288
Attached dwelling	12	118	39
Total	**100**	**983**	**328**

Source: HBA 2023

27. The following table presents realised housing capacity by looking at the **estimated net gain[3] in new dwellings** from the building consents granted by location (i.e. existing urban environment, and rural) and type (attached or detached) compared to estimated annual average of land available and estimated demand.

Realised housing capacity 2023

	Estimated annual short-term supply		**Estimated annual short-term demand**		**Estimated net gain in dwellings**	
By housing location						
	%	Dwellings	%	Dwellings	%	Dwellings
Existing urban environment	26	176	40	131	78	244
Greenfield	68	469	55	180	16	52
Rural	6	39	5	16	6	18
Total	**100**	**684**	**100**	**328**	**100**	**314**
By housing type						
			%	Dwellings	%	Dwellings
Detached dwelling	**Not applicable**		88	288	53	166
Attached dwelling			12	39	47	148
Total			**100**	**328**	**100**	**314**

*rural zone and rural residential overlay

Source: Palmerston North City Council

[3] By reconciling relocatables (in and out if the city) and adjusting for removals and demolitions.

28. Compared to the distribution of demand for dwelling in the short term, the analysis of the housing locations from the estimated net gain in dwellings from new building consents showed that:
    - 78% were in existing urban environment, which is about twice the estimated 40%
    - 16% were in greenfield areas, which is about a third, compared to 55% estimated
    - 6% were in rural areas compared to 5% estimated

29. Compared to the distribution of demand for housing in the short term, the analysis of the housing type from the estimated net gain in dwellings from new building consents showed that:
    - 53% were for standalone or detached dwellings, much lower than the estimated 88%
    - 47% were for attached (eg. townhouses, flats, and apartments) dwellings, which is four times the estimated 12%.

Conclusion

30. For the year ending 2023, the estimated net gain of 309 new dwellings is less than the estimated annual demand of 328 dwellings, and estimated 684 annual supply of available land for housing.

Part B:

Available data on business land

31. For business land, HBA 2023 projected
    a. the demand over the next 3 years is 24.3 ha, or 8.1 ha/year. This figure includes competitiveness margin of 20%.
    b. the supply over the next 3 years is 631.1 ha or 210.4 ha/year. This figure includes competitiveness margin of 20%.

32. The table below provides updated data on business land[4]. Compared to HBA 2023, there was 1.3 ha increased in the total land area that is developed (from 469.0 ha to 470.3 ha). This was is mainly due to completion of the land area that was previously “under construction” as part of zoned land available for development.

[4] Business land means land that is zoned, or identified in a Future Development Strategy or similar strategy or plan, for business uses in urban environments, including but not limited to land in the following:
(a) any industrial zone
(b) the commercial zone
(c) the large format retail zone
(d) any centre zone, to the extent it allows business uses
(e) the mixed use zone, to the extent it allows business uses
(f) any special purpose zone, to the extent it allows business uses

Available commercial zoned land area segmented by detailed commercial zone (ha)

	Location								
	Industrial			Business					
	Airport	Industrial	North East Industrial Zone (NEIZ)	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone / Residential	**TOTAL**
Developed land parcels	200.5	316.8	42.6	30.3	70.1	15.6	18.5	0.8	695.3
Zoned land available for development	12.9*	86.7**	180.9	1.3	9.9	4.0	2.9	5.9	304.5
Total zoned land	**213.5**	**403.5**	**223.6**	**31.7**	**80.0**	**19.6**	**21.4**	**6.7**	**999.8**

* Includes 8.65 ha within the airport that is designated for industrial development

** Includes 33.5ha of land zoned Braeburn Industrial Area that is restricted through the District Plan to dairy-related industries only. Any other industrial use would require a non-complying resource consent, which would be difficult to obtain.

33. The following table presents the updated breakdown of zoned land available for development as of 31 December 2023. Updates were made based on review of building consents issued in year 2023 on the various types of land that are available for development. Compared to data from HBA 2023, the total land area that was "under construction" has increased by approximately 4.3 ha (from 5.6 ha to 9.9 ha).

Estimated breakdown of zoned land available for development (ha)

	Airport	Industrial	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone/ Residential	TOTAL
Car Park	-	0.1	-	1.2	3.1	0.2	0.7	-	5.3
Occupied	0.6	5.8	0.4	-	0.1	2.7	0.4	-	10.0
Rural/Residential	2.7	6.4	98.4	0.1	5.4	1.0	1.6	5.9	121.6
Under Construction	-	3.1	6.4	0.0	0.4	-	0.0	-	9.9
Vacant	9.6	71.2	75.7	-	1.0	0.1	0.3	-	157.8
Total	**12.9**	**86.7**	**180.9**	**1.3**	**9.9**	**4.0**	**2.9**	**5.9**	**304.5**

Conclusion

34. Compared to the estimated 8.1ha/year average annual demand of land for business, a total of 1.4 ha of land that were under construction in HBA 2023 had been completed in 2023.

35. Compared to the estimated 210.4 ha/year of average annual supply of land available for business, a total of 9.9 ha is "under construction" in 2023.