An aerial photograph of Palmerston North, New Zealand. The foreground shows a dense residential area with many houses and trees. In the middle ground, the city center is visible with various buildings, including a prominent glass skyscraper. The background features a range of mountains, with the highest peaks covered in snow under a clear blue sky.

# URBAN DEVELOPMENT CAPACITY INDICATORS FOR PALMERSTON NORTH YEAR ENDED DECEMBER 2022

# Urban Development Capacity Indicators for Palmerston North

## December 2022

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# Background

## Introduction

As a Tier 2 local authority, Palmerston North monitors key housing market indicators and available data on business land quarterly, and publishes the results at least annually under the National Policy Statement on Urban Development 2020 (NPS-UD). This provides robust and frequently updated evidence-base information that can be used to inform planning decisions, future development strategies, and to ensure at least enough development capacity is enabled at all times. This publication reports on the range of indicators as stated in clause 3.9.1 of the NPS-UD, covering:

- demand, supply, price and rents of dwellings
- housing affordability
- realised housing capacity in brownfield and greenfield areas
- available data on business land

## Source of Information

Information is gathered from various sources such as Stats New Zealand (Stats NZ), Ministry of Business, Innovation and Employment (MBIE), Ministry of Housing and Urban Development (MHUD) urban development dashboard Palmerston North City Council, Real Estate Institute of New Zealand (REINZ), Corelogic and Infometrics.

## Further information

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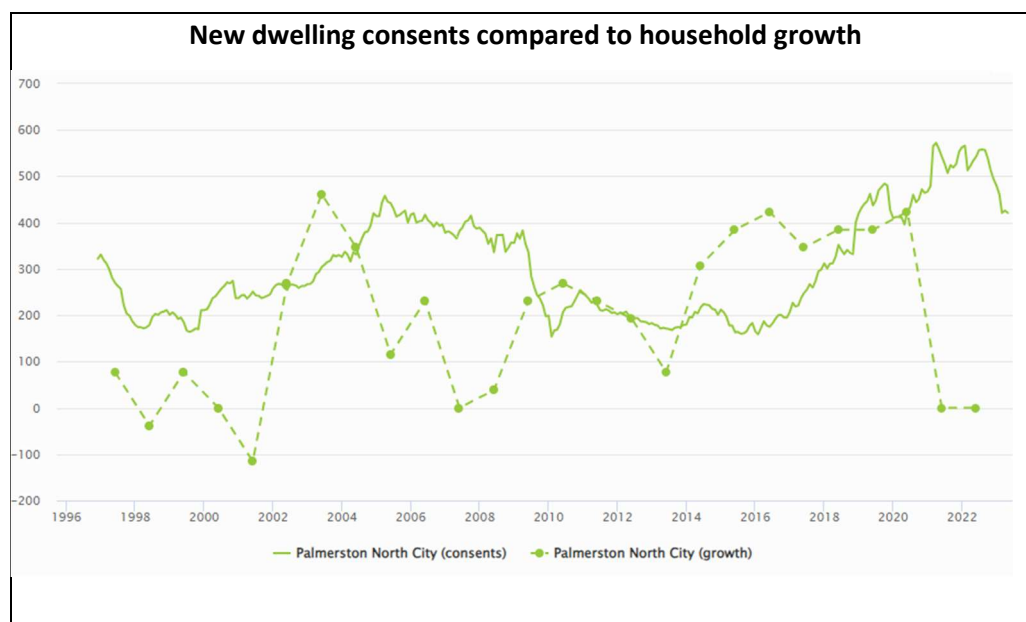
## Part A: Demand and Supply

### Estimated demand

1. Based on the estimated demand for the short term (ie. July 2021 – June 2024) from Palmerston North Housing Capacity Assessment Report (2021), the average annual demand is 423 households.

### Proxies for demand and supply

2. The Ministry of Housing and Urban Development - Urban Development Dashboard provides an indicator that compares new dwelling consents (as proxy for supply) compared to household growth (as proxy for demand). Both are based on information from Stats NZ. Building consent is lagged by six months and is presented as a 12-month rolling average to account for the time taken from consenting to completion, but not adjusted for non-completions, or for demolitions. Household growth is based on recent resident population estimate divided by the local average housing size.
3. The figure below shows the new dwelling consents compared to household growth for Palmerston North from 1996 – 2022, and the two main observations are:
  - Building consent appear to lag further behind household growth, ie increase in building consents visible from end 2015 onwards, tends to follow the increase in estimated household growth visible 2013/2014 forward.
  - Stats NZ's population estimate from June 2020 – 2022 indicates that population remained the same, while consents for new dwelling remains positive.



Source: MHUD Urban Development Dashboard

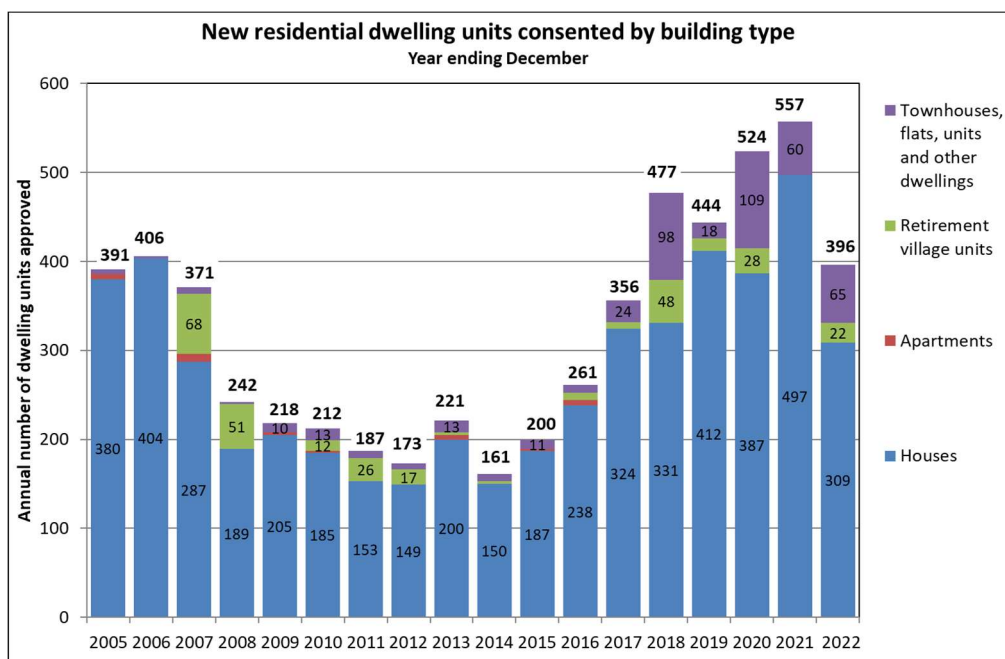


4. Based on the observations, it is possible to conclude that:

- The sustained level of new dwellings being consented for year 2021, and 2022 will likely result in increasing supply of housing to meet housing demand.
- The mismatch of the proxy supply and demand could be due to several factors such as longer lag period in construction of dwelling in Palmerston North, systematic underestimation of population or households due to changes in average housing size, and increased demand from neighbouring towns, and distortion from consents for relocatable houses.

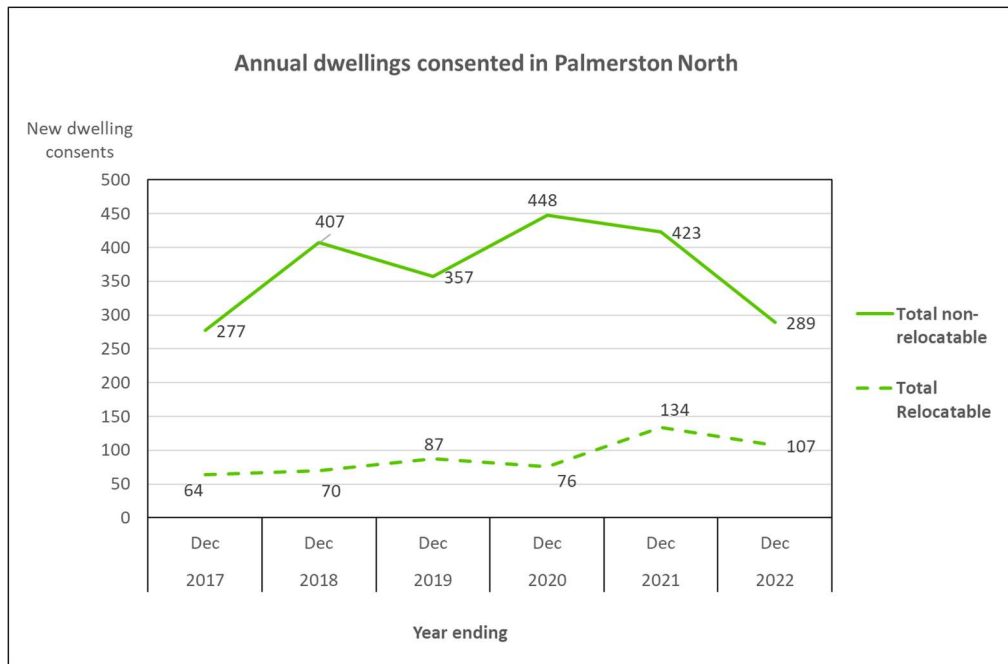
### Estimated supply – new dwellings

5. The chart below shows the trend of annual new dwellings consented over time by type of properties. There were 396 new dwelling consented in year 2022, and the average for years 2020-22 is 492/year.



Source: Stats NZ

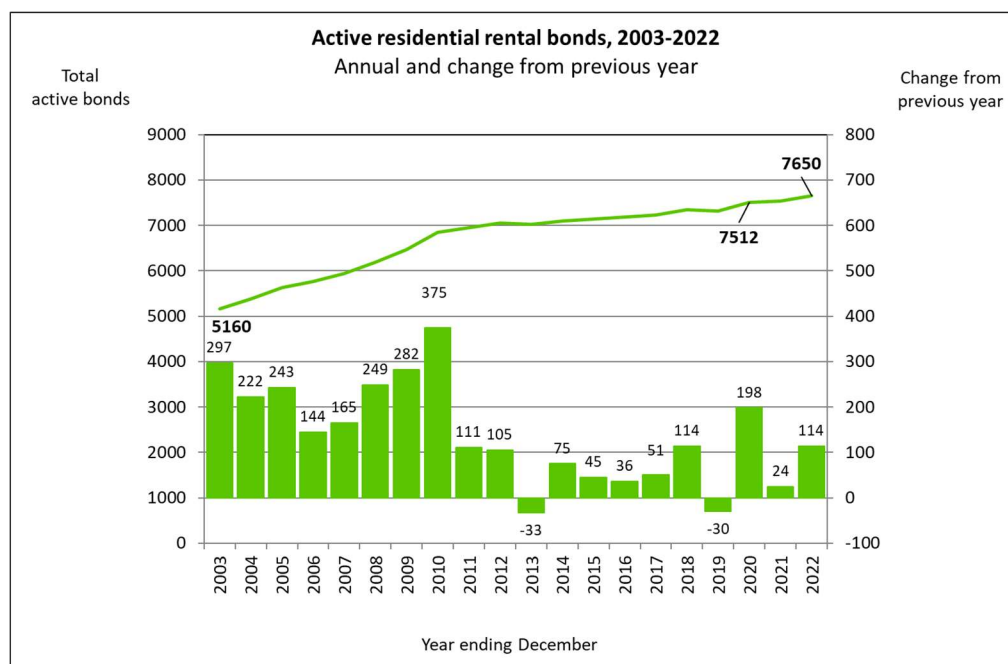
6. Out of the 396 new dwellings consented, 107 were for relocatable houses. Please see the following graph for breakdown. Many of the relocatable houses were constructed in the city for relocation to sites across the lower North Island. It is difficult to identify how many of these relocatable houses are added to housing stock in the city. Based on available information compiled for 2021/2022 financial year, at least 8% of relocatable homes will be destined for Palmerston North.



Source: Stats NZ, Palmerston North City Council

### Estimated supply – rental properties

- Monitoring of rental supply is based on data published by Ministry of Business, Innovation and Employment (MBIE) consisting of number of active tenancy bonds lodged by private landlords with MBIE. The line graph below shows that the total active residential rental bonds in December has been gradually increasing from 5160 in year 2003, to 7650 in year 2022. The bar chart shows change from the year before. For year ending December 2022, there was increase of 114 rental bonds lodged. The average annual increase of rental properties for the past 3 years (covering 2020, 2021 and 2022) is 112/year.



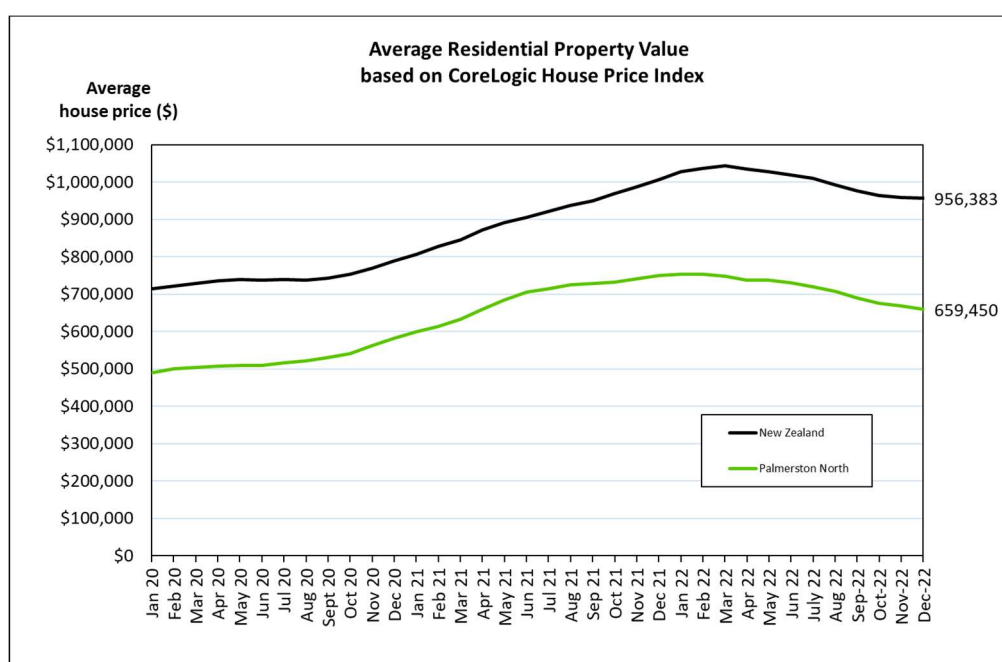
Source: MBIE

## Part B: Price and rents of dwellings

### Average residential property value

- Monitoring of house prices are tracked by average house values based on housing price index from Corelogic. It 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.

The average house values in December 2022 in Palmerston North was \$659,450 representing a 12.1% decline (\$91,086) compared to December 2021. 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.

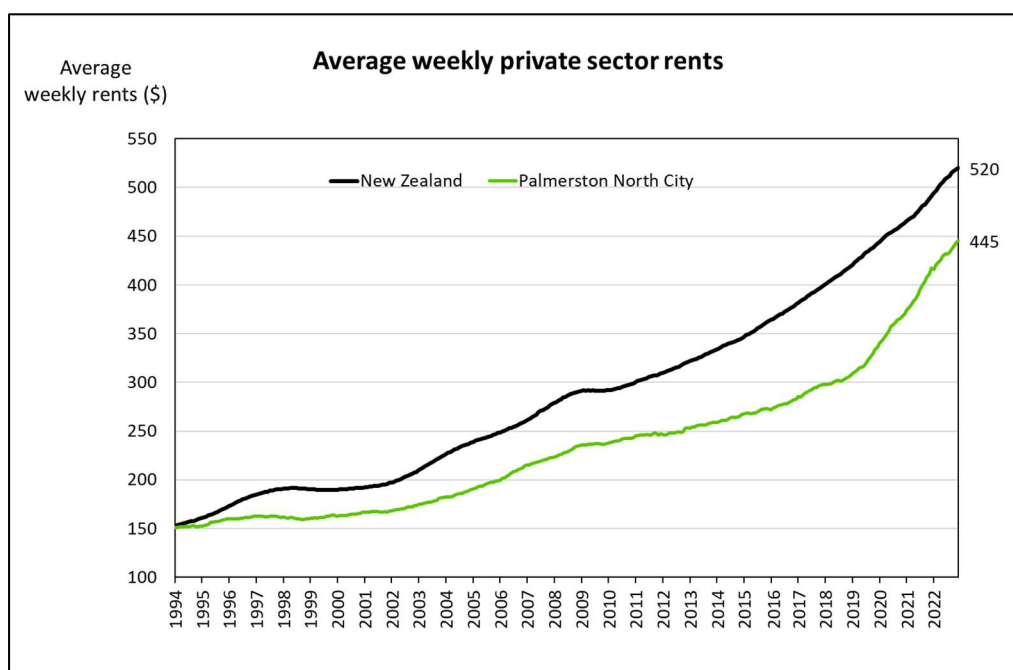


Source: Corelogic

### Average weekly private sector rents

- Monitoring of rents are based on rental price data published by MBIE consisting of tenancy bond data which measures 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.

The following chart presents the average weekly rent (over 12 months) in Palmerston North. For period ending December 2022, the average increased from \$417 to \$445 (6.7% increase). National average weekly rent increased from \$491 to \$520 (5.9% increase).

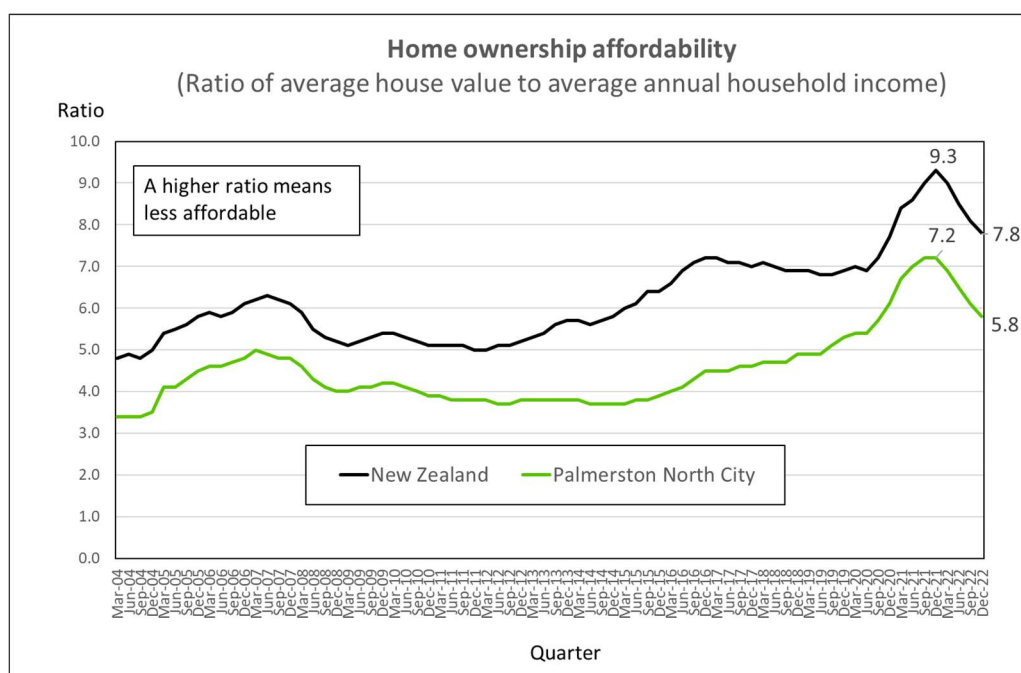


Source: MBIE

## Part C: Housing affordability

### Home ownership

10. Monitoring of home ownership is 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. In December 2022, the average house value in Palmerston was 5.8 times of estimated annual average household income compared to 7.8 times for New Zealand. Generally, the New Zealand ratio is still greater than Palmerston North by about 2.

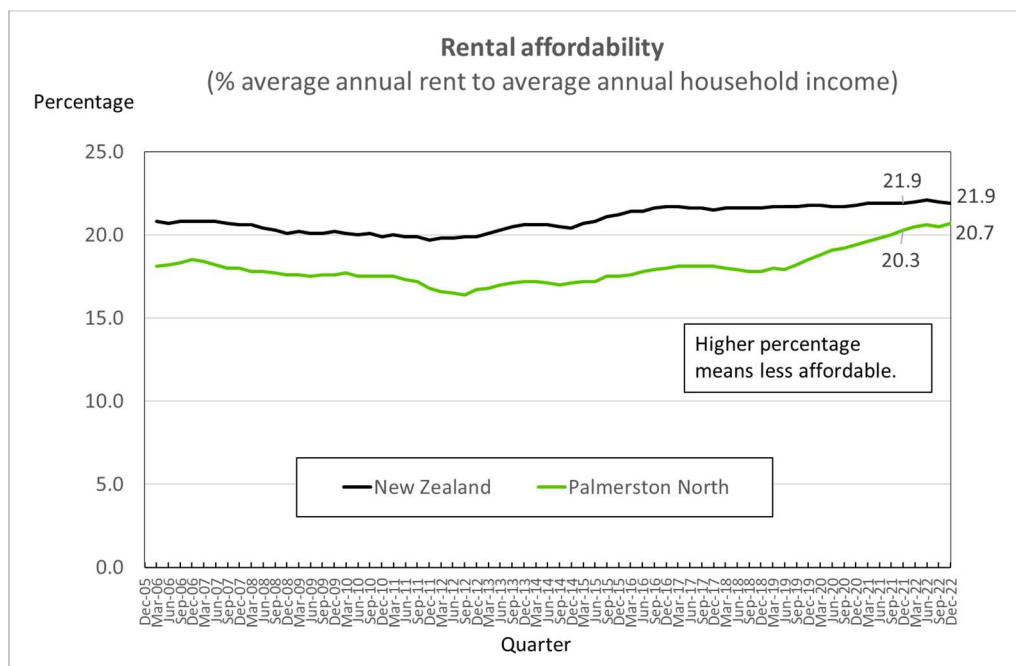


Source: Infometrics



## Rental affordability

11. Monitoring of home rental affordability is based on an indicator from Infometrics on the percentage of average annualised rent to estimated annual average household income. A higher percentage means it is less affordable to rent. In December 2022, the average annual rent in Palmerston North was 20.7% of estimated annual average household income compared to New Zealand's average of 21.9%. Although the percentage in Palmerston North remains lower, Palmerston North is slowly catching up from 1.6% difference in 2021 to 1.2% difference.



Source: Infometrics

## Part D: Realised housing capacity in brownfield and greenfield areas

12. Monitoring of realised housing capacity is presented as proportion of building consents issued by type (ie greenfield, infil, and rural). For year ending December 2022 about half of the dwellings assessed were consented in previously urbanised (ie. infill housing or redevelopment) areas, approximately 30% in previously undeveloped (ie. greenfield) areas, and 20% in rural areas. See table below for comparison with year 2021.

Year	2021		2022	
	Number of dwellings	%	Number of dwellings	%
Total Infill (consisting of dwelling, multi-unit and minor dwelling)	180	49%	122	52%
Greenfield	130	35%	67	29%
Rural	60	16%	43	19%
<b>Total</b>	<b>370</b>	<b>100%</b>	<b>232</b>	<b>100%</b>

Source: Palmerston North City Council

## Part E: Available data on commercial land

13. Based on the findings from a business vacancy survey carried out in December 2022 and May 2023, and the report on Palmerston North City Commercial Land Assessment (2023), the table below presents the summary of commercial land available for potential development.

	<b>Industrial zones</b> Industrial, Airport, and North East Industrial  (ha)	<b>Business zones</b> Inner, Outer, Fringe, and Local  (ha)
<b>Land area developed</b> , consisting of industrial businesses, and non-commercial (ie. library, airport, tertiary education, churches, courthouse) purposes	560	134
<b>Land available for potential development</b> , consisting of car parks, rural/residential land, and land that are vacant, under construction, and occupied land not related to business.	281	19
<b>Total land available</b>	841	153

Source: Palmerston North City Commercial Land Assessment (2023)