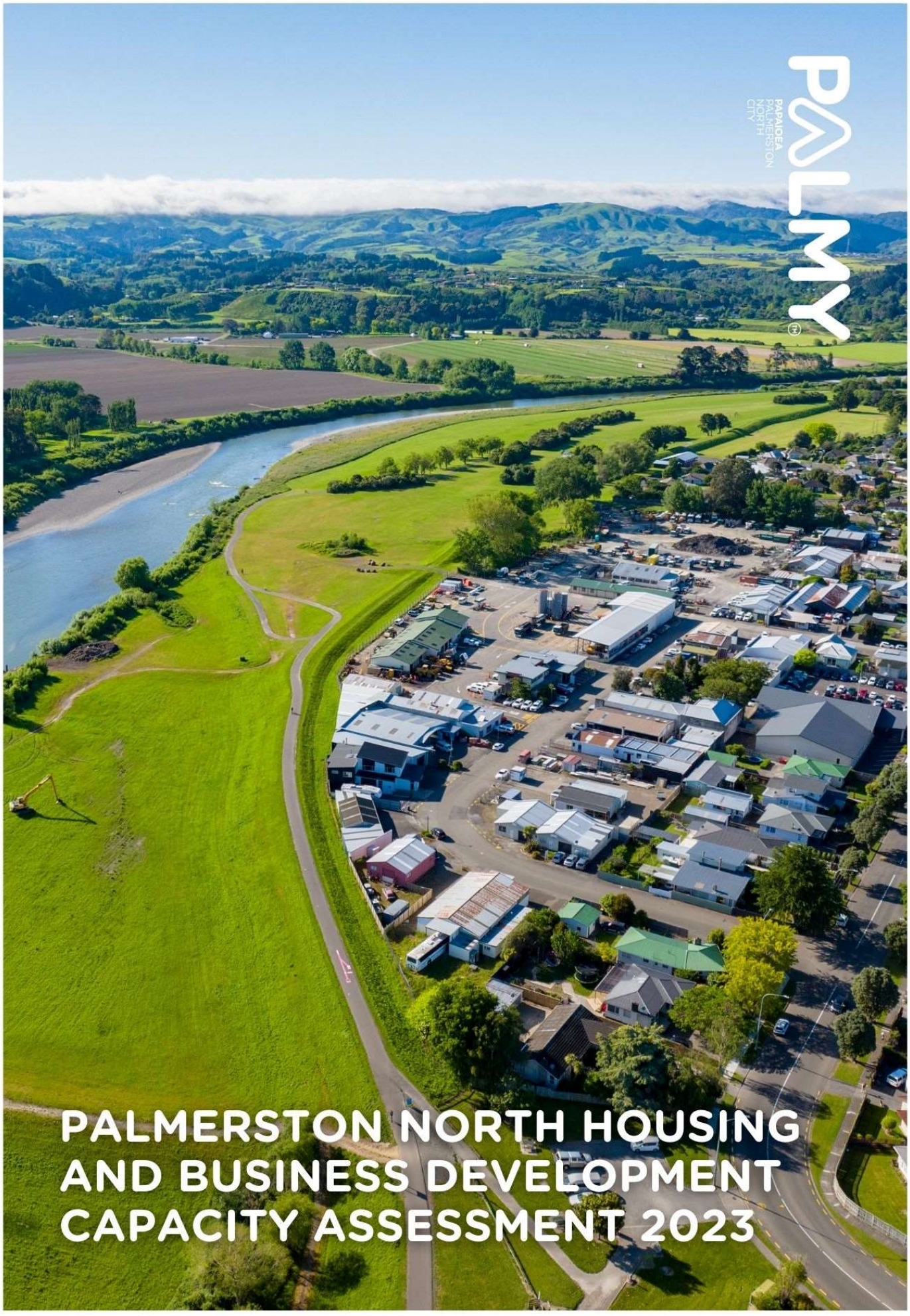
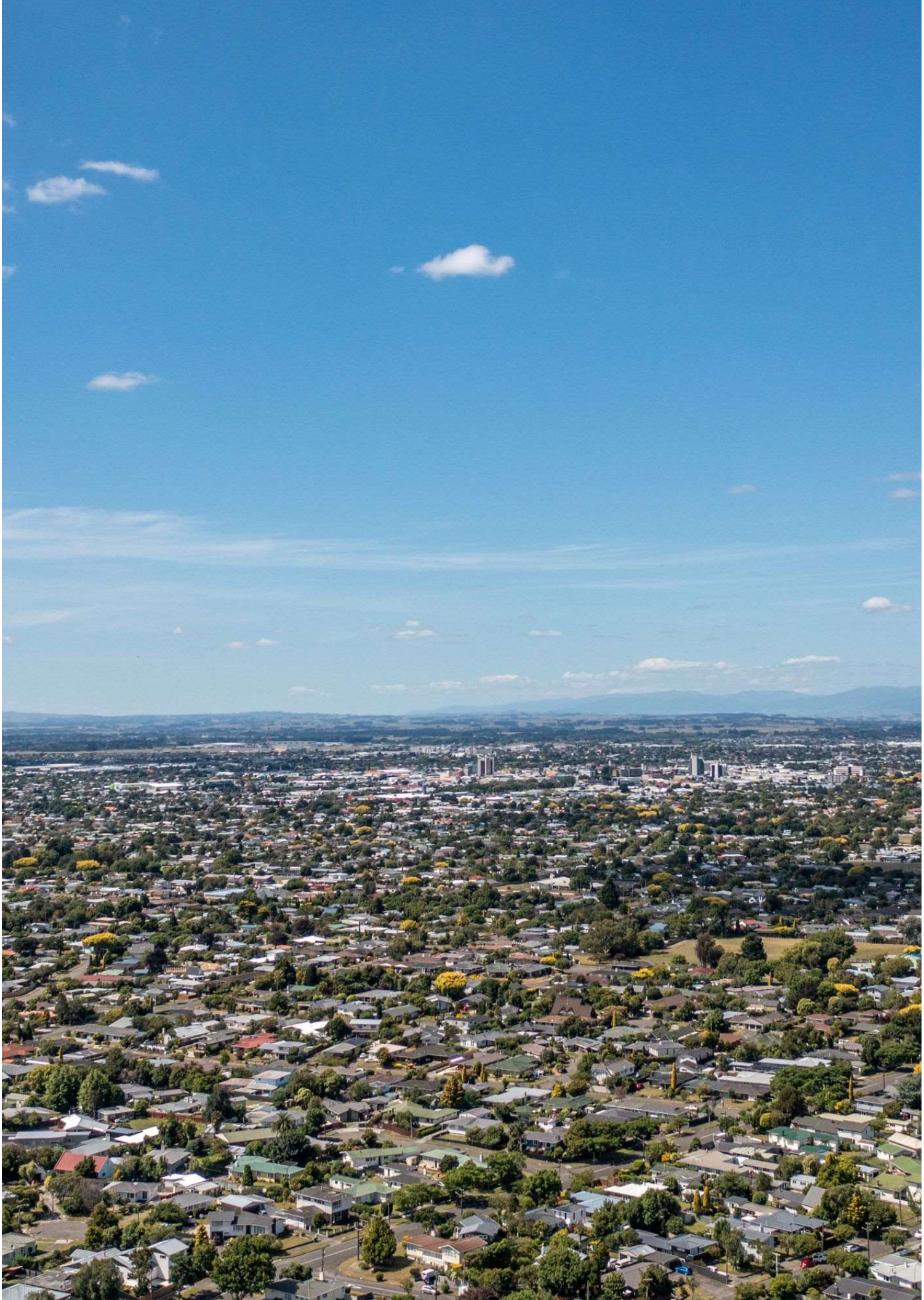


PALMERSTON NORTH HOUSING AND BUSINESS DEVELOPMENT CAPACITY ASSESSMENT 2023



Executive Summary

Prepared in accordance with the National Policy Statement on Urban Development 2020, the purpose of this Housing and Business Development Capacity Assessment is to provide information on the demand and supply of housing and business land in Palmerston North. A further purpose of the Assessment is to inform planning documents under the Resource Management Act 1991 and our Future Development Strategy and 2024 Long Term Plan.

The National Policy Statement on Urban Development requires us to provide sufficient development capacity for housing and business land. The land is considered to have sufficient development capacity when it is zoned for housing or business use, has development infrastructure to support housing and business, and is commercially feasible and likely to be developed.

The Assessment forecasts how many houses and the amount of business land needed for the next 30 years to meet demand in Palmerston North plus competitiveness margins – something the National Policy Statement on Urban Development requires us to add. It looks at whether we have enough zone-enabled, infrastructure-ready housing and business land and whether it is:

- commercially feasible and reasonably expected to be realised for housing
- suitable in terms of location and site size for business sectors

Housing

For housing, Palmerston North is projected to need 9,883 homes over the next 30 years, including competitiveness margins. The projected demand for homes in the short, medium, and long term is:

- 983 homes in the short term (within the next 3 years)
- 3,010 homes in the medium term (between 3 – 10 years from now)
- 5,891 homes in the long term (between 10 – 30 years from now)

We have looked at where homes have been built in the city and household size projections over the next 30 years to estimate where demand will be located and the types of homes – standalone or attached – our residents may want. We have estimated over the short, medium and long term the following demand:

	Short term *within the next 3 years*	Medium term *between 3 - 10 years*	Long term *between 10 – 30 years*	30 year total
Housing location				
Greenfield	393	1,505	3,240	5,138
Infill	541	1,354	2,357	4,251
Rural/ rural-residential	49	150	295	494
Housing type				
Standalone dwelling	865	2,588	4,595	8,048
Attached dwelling	118	421	1,296	1,835

We must examine our housing land and whether it is plan-enabled, infrastructure-ready, comercially feasible, and reasonably expected to be realised. We did so and found the following:

In the following short term, we have 2,053 homes that meet these criteria, and they are in the following locations:

- Infill – 1,408
- Greenfield – 528
- Rural/Rural-Residential - 117

In the medium term, we have 5,757 homes that meet these criteria, and they are in the following locations:

- Infill – 3,238
- Greenfield – 2,246
- Rural/Rural-Residential - 273

In the long term, we have 10,883 homes that meet these criteria, and they are in the following locations:

- Infill – 3,238
- Greenfield – 6,865
- Rural/Rural-Residential – 780

When comparing our housing demand and our supply that is plan-enabled, infrastructure-ready, and feasible and reasonably expected to be realised housing land, we have enough development capacity in the short, medium and long term to meet demand.

We must progress District Plan changes to rezone land for residential use and intensification to ensure we have enough housing to meet demand. Delivering development infrastructure will be critical to bringing our greenfield residential areas online.

Finally, the National Policy Statement requires us to insert housing bottom lines into our District Plan as soon as practicable after this Housing and Business Development Capacity Assessment is publicly available. Horizons Regional Council must also insert them into their regional policy statement. Our housing bottom lines are:

Short-medium term *within the next 10 years*	Long term *between 10 and 30 years*
3,993 includes an additional margin of 20%	**5,891** includes an additional margin of 15%

Business Land

For business land, we have projected there will be demand for a total of 279.6 hectares of business land over the next 30 years. This figure includes competitiveness margins. When broken down into the short, medium and long term, this means there will be demand for:

- 24.5 hectares in the short term
- 71.2 hectares in the medium term
- 184.0 hectares in the long term

When broken down into demand from the different business sectors. The projected demand for floor area and land from each sector is as follows:

Business Sector	Short term		Medium term		Long term		30 Year Total	
	Floor area (m2)	*Land area (ha)*	*Floor Area (m2)*	*Land area (ha)*	*Floor area (m2)*	*Land area (ha)*	*Floor area (m2)*	*Land area (ha)*
Small & medium industrial	34,264	9.1	95,527	24.5	216,481	50.8	346,271	84.4
Large floor plate industrial	59,688	13.9	177,430	40.7	515,959	114.7	753,077	169.3
Accommodation	-	0.0	4,566	0.4	15,984	1.2	20,550	1.5
Small & medium retail (pedestrian-oriented retail)	-	0.0	-	0.0	43,856	3.8	43,856	3.8
Large format retail (vehicle-oriented retail)	3,540	0.6	13,427	2.4	33,030	5.5	49,997	8.5
Commercial office	-	0.0	71	0.0	32,984	0.7	33,055	0.7
Commercial services	4,181	0.8	16,079	3.2	39,672	7.4	59,931	11.4
Total	**101,672**	**24.5**	**307,099**	**71.2**	**897,966**	**184.0**	**1,306,738**	**279.6**

We looked at our plan-enabled business land and infrastructure-ready business land, and found we have:

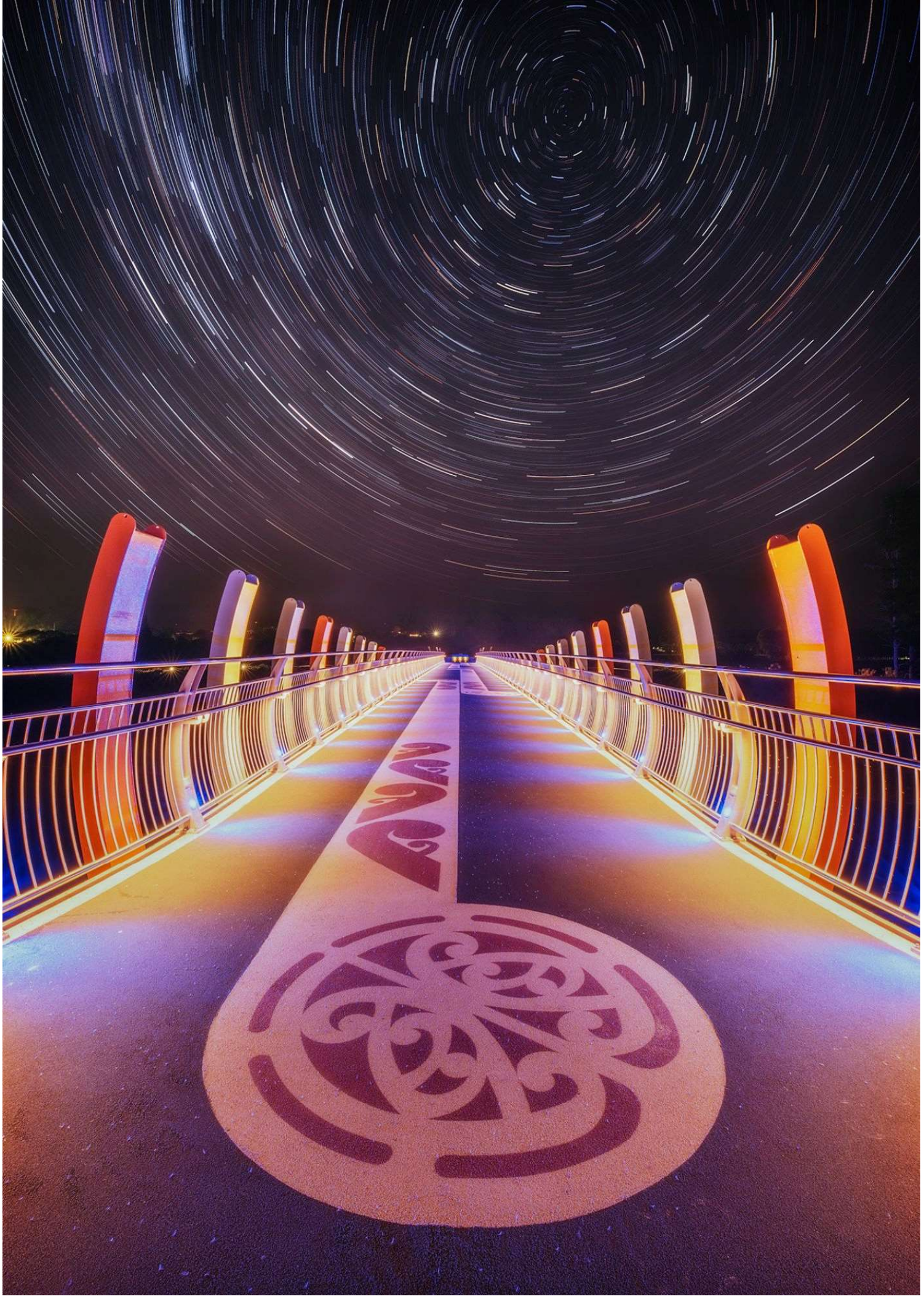
- 631.1 hectares in the short term

- 94.4 hectares in the medium term
- 291.3 hectares in the long term

To determine suitability, we looked at where business sectors are currently located in our business and industrial zones and vacant land across the zones. We found that the business land we have identified across the short, medium and long term is suitable in terms of site size and location.

Based on our demand projections and our plan-enabled business land, infrastructure readiness and suitability, we have found that Palmerston North has sufficient development capacity to meet the projected demand for business land over the next 30 years.

We will need to monitor land ownership rates, the effect of residential rezonings, and how business land is being developed and redeveloped as they present risks to meeting demand. We will also need to progress with Te Utanganui to increase industrial land supply to meet demand and support further business land choices in the district.



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Appendices

Appendix 1 – Our Economic Overview

Appendix 2 – Fresh Info Palmerston North Commercial Land Assessment - August 2023

Appendix 3 – Telfer Young Palmerston North Commercial Market Survey 2022 – December 2022

Terms and Abbreviations

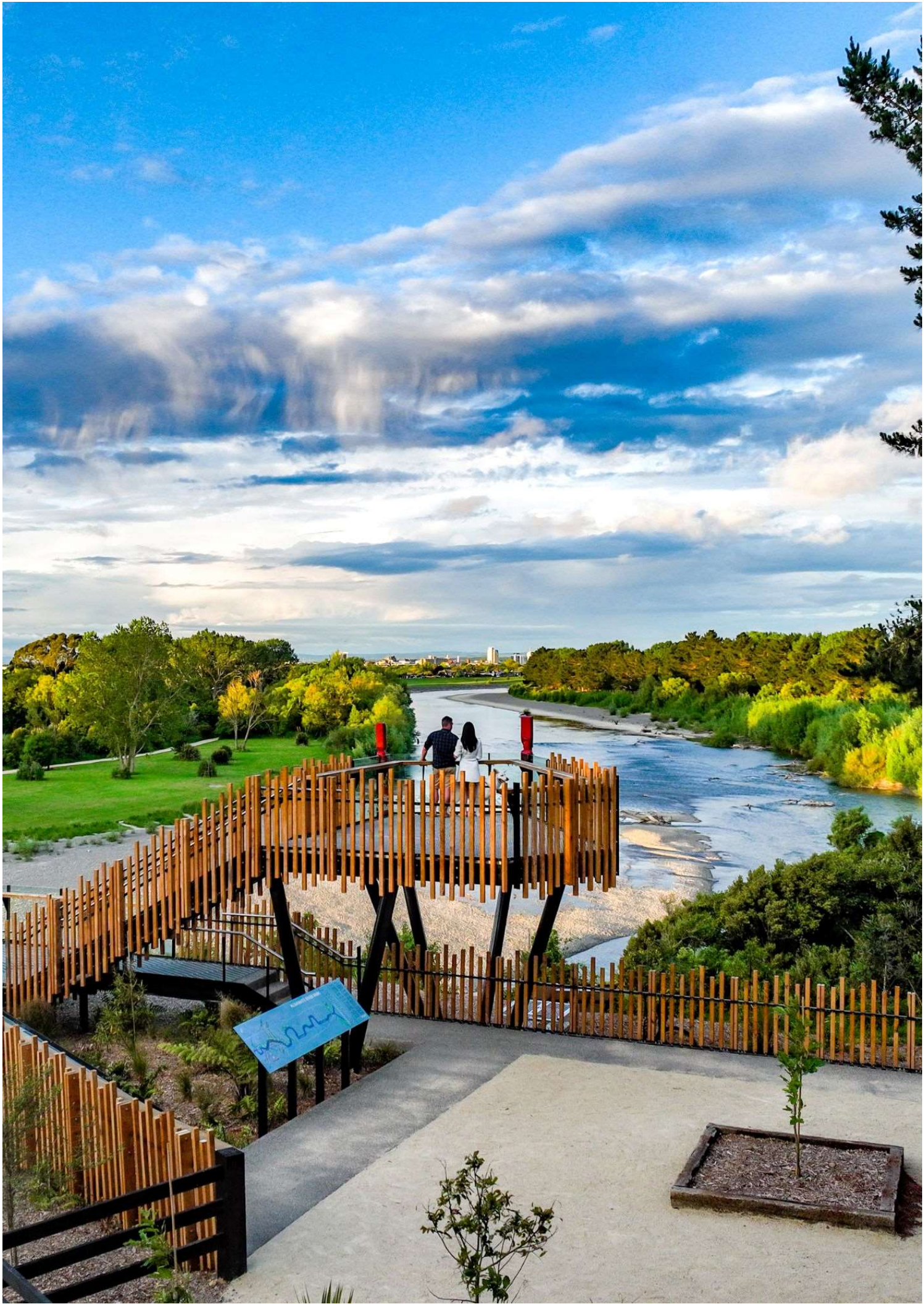
Terms and abbreviations used in this report are:

Additional infrastructure	Has the same meaning in the National Policy Statement on Urban Development 2020, which is: (a) public open space (b) community infrastructure as defined in section 197 of the Local Government Act 2002 (c) land transport (as defined in the Land Transport Management Act 2003) that is not controlled by local authorities (d) social infrastructure, such as schools and healthcare facilities (e) a network operated for the purpose of telecommunications (as defined in section 5 of the Telecommunications Act 2001) (f) a network operated for the purpose of transmitting or distributing electricity or gas
Business land	Has the same meaning in the National Policy Statement on Urban Development 2020, which is: 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: • any industrial zone • the commercial zone • the large format retail zone • any centre zone, to the extent it allows business uses • the mixed use zone, to the extent it allows business uses • any special purpose zone, to the extent it allows business uses For Palmerston North, our business land is: • Airport Zone • Industrial Zone • North East Industrial Zone • Inner Business Zone • Outer Business Zone • Fringe Business Zone • Local Business Zone

Competitiveness margins	The competitiveness margins as required by the National Policy Statement on Urban Development: • 20% in the short term • 20% in the medium term • 15% in the long term
Development capacity	the capacity of land to be developed for housing or for business use, based on: the zoning, objectives, policies, rules, and overlays that apply in the relevant proposed and operative RMA planning documents; and the provision of adequate development infrastructure to support the development of land for housing or business use
Development infrastructure	to the extent they are controlled by a local authority or council-controlled organisation (as defined in section 6 of the Local Government Act 2002): • network infrastructure for water supply, wastewater, or stormwater • land transport (as defined in section 5 of the Land Transport Management Act 2003)
Feasible	• for the short term or medium term, commercially viable to a developer based on the current relationship between costs and revenue • for the long term, commercially viable to a developer based on the current relationship between costs and revenue, or on any reasonable adjustment to that relationship
Greenfield	Refers to housing areas on the edges of the City on land that has been rezoned or is identified for future rezoning to residential.
GDP	Gross Domestic Product
Ha	Hectares
HBA	Housing and Business Development Capacity Assessment
Housing Capacity Assessment	Our Housing Capacity Assessment published in 2021
Infill	Refers to housing within our existing urban environments, and when referring to infill dwellings, it includes dwellings, multi-unit, and minor dwellings within our existing urban environments.
Infrastructure-ready	Has the same meaning in clause 3.4 of the National Policy Statement on Urban Development 2020, which is: (d) in relation to the short term, there is adequate existing development infrastructure to support the development of the land (e) in relation to the medium term, either paragraph (a) applies, or funding for adequate development infrastructure to support development of the land is identified in a Long Term Plan

	(f) in relation to the long term, either paragraph (b) applies, or the development infrastructure to support the development capacity is identified in the local authority's infrastructure strategy (as required as part of its Long Term Plan).
Long term	Between 10 and 30 years
Medium term	Between 3 and 10 years
Plan-enabled	Has the same meaning in clause 3.4 of the National Policy Statement on Urban Development 2020, which is: (a) in relation to the short term, it is on land that is zoned for housing or for business use (as applicable) in an operative District Plan (b) in relation to the medium term, either paragraph (a) applies, or it is on land that is zoned for housing or for business use (as applicable) in a proposed District Plan (c) in relation to the long term, either paragraph (b) applies, or it is on land identified by the local authority for future urban use or urban intensification in an FDS or, if the local authority is not required to have an FDS, any other relevant plan or strategy. Land is zoned for housing or for business use (as applicable) only if the housing or business use is a permitted, controlled, or restricted discretionary activity on that land.
Planning decision	a decision on any of the following: • a regional policy statement or proposed regional policy statement • a regional plan or proposed regional plan • a District Plan or proposed District Plan • a resource consent • a designation • a heritage order • a water conservation order • a change to a plan requested under Part 2 of Schedule 1 of the Act
RMA planning document	• a regional policy statement • a regional plan • a District Plan In our case, our planning document is the Operative Palmerston North District Plan
Rural/rural-residential	Refers to land in our Rural Zone and Rural-Residential Overlay, which consists of lifestyle blocks and rural land.
Short term	Within the next 3 years
Short-medium term	Within the next 10 years

StatsNZ	Statistics New Zealand Tatauranga Aotearoa
The 2024 Long Term Plan	Our upcoming 10-Year Plan
The Act	The Resource Management Act 1991
The Assessment	This 2023 Housing and Business Development Capacity Assessment
The Long Term Plan	Palmerston North City Council's 10-Year Plan 2021-2031
The Policy Statement	National Policy Statement on Urban Development (2020)



Introduction

Under the National Policy Statement on Urban Development 2020 (The Policy Statement), Palmerston North City Council is identified as a tier 2 local authority. The Policy Statement identifies the city of Palmerston North as a tier 2 urban environment. Tier 2 local authorities such as us must prepare a Housing and Business Development Capacity Assessment (The Assessment) for their tier 2 urban environment every three years. This is our three-yearly Housing and Business Development Capacity Assessment.

The purpose of a Housing and Business Development Capacity Assessment is to provide information on the demand and supply of housing and business land in Palmerston North. A further purpose of the Assessment is to inform planning documents under the Resource Management Act 1991 (The Act), our Future Development Strategy (The Strategy) and 2024 Long Term Plan.

The Assessment quantifies the development capacity that is sufficient to meet expected housing and business demand over the short term (within the next 3 years), medium term (between 3-10 years), and long term (between 10 – 30 years).

Our assessment is in two parts –Housing and Business – the housing part includes:

- Information about our current housing context, including construction trends, households in the district and our district planning context
- Our analysis of our housing market
- Our estimate of housing demand over the short, medium and long terms
- Our assessment of our housing development capacity over the short, medium and long terms, including what is plan-enabled, infrastructure-ready, commercially feasible and reasonably expected to be realised
- Our assessment of whether we have sufficient development capacity for housing

The business part includes:

- Information about our current business land, including construction trends, vacancy rates, district planning context and projects and strategies that will influence our business land demand and supply
- Our estimate of business land demand over the short, medium and long terms
- Our assessment of our business land development capacity over the short, medium and long terms, including what is plan-enabled, infrastructure-ready and suitable for our business sectors
- Our assessment of whether we have sufficient development capacity to meet the estimated demand for business land.

Before Part 1, we give an overview of our obligations under the Policy Statement as part of preparing this Assessment and our methodology, inputs and assumptions to meet those requirements. Following this, we give an overview of Palmerston North district's relevant economic indicators and projected population growth. We then describe the engagement we have undertaken as part of preparing the Assessment.

Following these upfront sections, the Assessment breaks into Parts 1 and 2.

Methodology, Inputs and Assumptions

The Policy Statement contains several different requirements that our Assessment needs to meet. This section outlines these requirements and how we have produced the Assessment in line with them. It also states where each requirement is dealt with in the Assessment.

Our obligations when preparing a Housing and Business Development Capacity Assessment

Clause 3.19(1) of the Policy Statement says we must prepare and make publicly available a Housing and Business Development Capacity Assessment every three years in time to inform the next Long Term Plan. We last released our assessment in 2019. This Assessment has been three years since then, and our next Long Term Plan is being drafted for consultation in 2024.

Clause 3.19(2) says our assessment must apply at a minimum to the relevant tier 2 urban environment (Palmerston North City in our case). This requires us to assess demand and capacity within the boundaries of Palmerston North City. The clause states that the Assessment may apply to any wider area. Our assessment applies to the entire Palmerston North District, including Longburn, Ashhurst, Linton and Bunnythorpe and our rural environment rather than just Palmerston North City. We have done this because these villages and rural areas are near Palmerston North City; hence, the housing and business markets are considered to be closely related.

The purpose of a Housing and Business Development Capacity Assessment and where in our assessment this information is

Clause 3.20 of the Policy Statement outlines the purpose of Housing and Business Development Capacity Assessments. The purpose is threefold and includes:

- Providing information on the demand and supply of housing and business land in the urban environment and the impact of councils' planning and infrastructure decisions on that demand and supply.
- Informing district and regional planning documents, Future Development Strategies and Long Term Plans
- Finally, quantifying the sufficient development capacity is to meet the expected demand for housing and business land in the short, medium and long terms.

Information on the demand and supply of housing and business land are found in Parts 1 and 2, respectively. The impact of planning and infrastructure decisions on housing and business land demand and supply are found in Parts 1 and 2 of this assessment.

The sufficient development capacity assessments for housing and business land are found in section 6 of Part 1 for housing and section 5 of Part 2 for business land.

Involving development sectors and others in the preparation of the Housing and Business Development Capacity Assessment and how we have done this

The Policy Statement requires us to seek information and comments from the following people and organisations:

- Expert or experienced people in the development sector
- Providers of development infrastructure and additional infrastructure
- Anyone else with information that may materially affect the calculation of the development capacity.

We have engaged with these people and organisations, and this is detailed in our Engagement section.

When we have included the competitiveness margins

The Policy Statement requires us to add competitiveness margins over and above the expected housing and business land demand. This is to support choice and competitiveness in housing and business land markets. The competitiveness margins required by the Policy Statement are:

- 20% in the short term (within the next 3 years. Our short term period will begin in 2024, in line with our projections' start date.
- 20% in the medium term (between 3 and 10 years)
- 15% in the long term (between 10 and 30 years)

In our Assessment, we have made it clear where we are talking about demand only and where we are talking about demand plus the competitiveness margins.

Housing Assessment Methodology, Inputs and Assumptions

The following sections set out our methodology, inputs and assumptions to meet the requirements in the Policy Statement for the housing portion of the Assessment. The housing portion of the Assessment is found in part 1.

1.1 Analysing the housing market and the impact of planning on housing

Clause 3.23 of the Policy Statement sets out several requirements relating to analysing the housing market and the impact of planning when preparing the Assessment. These requirements require us to:

- Analyse how planning decisions and the provision of infrastructure affect the affordability and competitiveness of the local housing market

- Analyse how well the current and likely future demands for housing by Māori and different groups in the community (such as older people, renters, homeowners, low-income households, visitors, and seasonal workers) are met, including the demand for different types and forms of housing (such as for lower-cost housing, papakāinga)

The Policy Statement says the analysis required must be informed by market indicators, including:

- Indicators of housing affordability, housing demand, and housing supply
- Information about household incomes, housing prices, and rents
- Price efficiency indicators

Section 3 of Part 1 of the Assessment analyses how planning decisions and infrastructure provision affect affordability and competitiveness. We looked at national and local data relating to house prices, rental prices, household incomes, and price efficiency indicators to determine whether our planning decisions and infrastructure provision affect housing affordability and the competitiveness of the local housing market.

To determine how well the current and likely future demands for housing by Māori and other groups are met, we talked to Rangitāne o Manawatū and Te Tihi about their housing needs. We looked at population and household projections for Māori and other groups, our current housing stock, and historical building consent trends to determine whether their needs would be met.

1.2 Assessing housing demand

Clause 3.24 requires our Assessment to include a housing demand assessment that meets several requirements. The table below sets out these requirements, our method for meeting them, and where it can be found in the Assessment.

Table 1 National Policy Statement on Urban Development Clause 3.24 requirements and our method

(1) Every HBA must estimate, for the short term, medium term, and long term, the demand for additional housing in the region and each constituent district of the tier 1 or tier 2 urban environment: (a) in different locations; and (b) in terms of dwelling types.	Our demand estimates are found in section 4 of this assessment. The locations and dwelling types are also included in this section. We have estimated demand for dwellings based on population and household projections for the next 30 years. We have considered projected age, ethnicity, household size and type, and historic building and resource consent data to estimate where demand will be and for what type of housing.
(2) Local authorities may identify locations in any way they choose	We have identified locations as 'greenfield', 'infill', and 'rural/rural-residential':

	Infill is within our existing urban environment, and when we talk about infill housing types, this includes multi-unit and minor dwellings. Greenfield is on the city's edges on land that has been rezoned or planned for residential use. Rural/rural residential is land in our Rural Zone and Rural-Residential Overlay. We have done this because our resource and building consent data can be spatially defined into these categories, and we can see demand trends in these locations over time.
(3) Local authorities may identify the types of dwellings in any way they choose but must, at a minimum, distinguish between standalone dwellings and attached dwellings.	We have identified types as standalone and attached. To estimate the demand for each, we looked at the number of standalone and multi-unit dwellings. Multi-unit dwellings have been used as a proxy for attached demand as they are attached 80% of the time. We have not been able to capture the number of attached housing built outside of multi-unit developments, so our demand estimates for attached housing could be understated.
(4) The demand for housing must be expressed in terms of numbers of dwellings.	Our demand assessment expresses demand in terms of the number of dwellings.
(5) Every Housing and Business Development Capacity Assessment must: (a) set out a range of projections of demand for housing in the short term, medium term, and long term; and (b) identify which of the projections are the most likely in each of the short term, medium term, and long term; and (c) set out the assumptions underpinning the different projections and the reason for selecting the most likely; and (d) if those assumptions involve a high level of uncertainty, the nature and potential effects of that uncertainty.	Our range of projections for the short, medium, and long term are discussed in section 4.1 of Part 1 of this Assessment. They involve projecting demand for houses based on low, base, and high growth population and household scenarios with our Hybrid Model. We have identified our Hybrid Model projections as the most likely demand projection. The model has been prepared by Palmerston North City Council and is based on the Statistics New Zealand population projections released in April 2023 and the Infometrics medium growth scenario for 2024-2054. The reason why a Hybrid Model has been used is because of the conservative view applied by Infometrics on both net international migration and labour force growth. The outcomes for 2022 and 2023 indicate a much higher growth scenario than that envisaged by Infometrics. Therefore, the Statistics NZ high population projection has been employed as a starting point, with the Infometrics medium growth scenario (annual percentage growth) applied over the 30-year planning period.

	Assumptions underpinning the model are found in section 4.1. None of our assumptions involve high levels of uncertainty. Nonetheless, we have flagged our assumptions throughout the Assessment.

1.3 Assessing housing development capacity

We are also required, under clause 3.25 of the Policy Statement, to quantify the housing development capacity for housing in the district that is:

- plan-enabled; and
- plan-enabled and infrastructure-ready; and
- plan-enabled, infrastructure-ready, commercially feasible and reasonably expected to be realised.

It is worth noting that 'plan-enabled', 'infrastructure-ready' and 'feasible and reasonably expected to be realised' are all defined in the Policy Statement. More details on the definitions are found in the terms and abbreviations section at the start of this Assessment.

Clause 3.25(2) requires the 'development capacity' to be stated as the number of dwellings in different locations, including in new and existing areas, and of different types, including standalone dwellings and attached dwellings. We have quantified it following this: locations are greenfield, infill or rural/rural residential. For types, our District Plan enables a wide variety of housing types as permitted up to restricted discretionary activities, so we have not distinguished types in our development capacity assessments.

Our housing development capacity assessment is in section 5 of Part 1 of this Assessment.

1.4 Estimating what is commercially feasible and reasonably expected to be realised

Our Assessment is required by the Policy Statement to estimate what is commercially feasible and reasonably expected to be realised as part of our development capacity assessment. Clause 3.26 of the Policy Statement states that we may use any appropriate method but must outline and justify the methods, inputs, and assumptions used to arrive at the estimates.

Our commercially feasible and reasonably expected to be realised assessment is contained in section 5.4.5 of Part 1 of this Assessment.

1.5 Assessing sufficient development capacity for housing

Finally, for the last part of the housing-based requirements for a Housing and Business Development Capacity Assessment, clause 3.27 of the Policy Statement requires us to assess whether we have enough development capacity to meet housing demand. The requirements for doing so are set out in the table below, along with how we have met them and where they can be found in the Assessment.

Table 2 National Policy Statement on Urban Development Clause 3.27 requirements and our method

(1) Every HBA must clearly identify, for the short term, medium term, and long term, where there is sufficient development capacity to meet demand for housing in the region and each constituent district of the tier 1 or tier 2 urban environment.	Whether we have sufficient development capacity to meet demand from the short to the long term is stated in section 6 of Part 1 of the Assessment. We have only assessed the development capacity and demand in the district.
(2) The requirements of subclause (1) must be based on a comparison of: (a) the demand for housing referred to in clause 3.24 plus the appropriate competitiveness margin; and (b) the development capacity identified under clause 3.25.	The comparison is found in section 6 of the Assessment. Points (a) and (b) can be found in sections 8 and 9.
(3) If there is any insufficiency, the HBA must identify where and when this will occur and analyse the extent to which RMA planning documents, a lack of development infrastructure, or both, cause or contribute to the insufficiency.	Our sufficiency assessment is found in section 6 of this Assessment. Our analysis of the RMA planning documents has included a look at our operative zoned areas, future residential growth areas, and demand to determine whether the areas available for housing are sufficient. We have also looked at feedback from our development community to determine whether any anecdotal suggestions of planning documents in the district restrict our housing supply. For development infrastructure, we have looked at what infrastructure is required to bring residential growth areas online and whether the timing of infrastructure provision meets the housing need from demand in the short, medium, and long term.

Business Land Assessment Methodology, Inputs and Assumptions

The following sections set out our methodology, inputs and assumptions to meet the requirements in the Policy Statement for the business land portion of a Housing and Business Development Capacity Assessment.

1.6 Assessing business land demand

Clause 3.28 of the Policy Statement requires us to estimate for the short, medium and long term the demand, in hectares or floor areas, from each business sector for additional business land in the region and tier 2 urban environment (Palmerston North City).

We have estimated demand in floor areas and then converted it to hectares based on observable and assumed floor area to land requirements for each business sector. We have estimated demand across the entire Palmerston North district and have not done so for the Manawatu-Whanganui region, as Palmerston North City is the only tier 2 urban environment within it.

Our demand assessment for business land can be found in section 3 of Part 2 of this Assessment.

The Policy Statement says we can identify business sectors in any way we choose but must, at a minimum, distinguish between sectors that would use land zoned for commercial, retail, or industrial uses. We've identified business sectors as follows:

- Small & medium industrial
- Large floor plate industrial
- Accommodation
- Small & medium retail (pedestrian-orientated retail)
- Large format (vehicle-oriented) retail
- Commercial office
- Commercial services (combination of light industrial and services for businesses)

Definitions for each sector can be found in section 1 of part 2.

Clause 3.28(5) of the Policy Statement sets out the requirements for our projections. They are replicated in the table below, along with how our projections have responded to these requirements and where they can be found in this Assessment.

Table 3 National Policy Statement on Urban Development Clause 3.28 requirements and our method

(a) set out the most likely projection of demand for business land by business sector in the short term, medium term, and long term	We have projected demand based on the relationship between population growth and commercial floor area. In short, as our population grows, we have projected what this will mean for commercial floor area requirements. We projected three different scenarios – a low, base, and high population growth and land demand scenario. The most likely projection is the base scenario, using the population growth projections that Palmerston North City Council adopted in 2023.
(b) set out the assumptions underpinning that projection	Our assumptions underpinning the projection can be found in our Projections Report attached to this Assessment as Appendix 2.
(c) if those assumptions involve a high level of uncertainty, the nature and potential effects of that uncertainty	We do not consider our assumptions to involve a high level of uncertainty. They are based on observable trends in our district and New Zealand's

	business land development market. Nonetheless, the Projections Report sets out the standard uncertainty that projections involve.

1.7 Assessing business land development capacity

The Policy Statement, in clause 3.29, requires our Assessment to include a business land development capacity assessment. We must estimate the following, for the short term, medium term, and long term, for the district:

- the development capacity (in terms of hectares or floor areas) to meet expected demand for business land for each business sector, plus the appropriate competitiveness margin; and
- of that development capacity, the development capacity that is:
    - plan-enabled; and
    - plan-enabled and infrastructure-ready; and
    - plan-enabled, infrastructure-ready, and suitable for each business sector.

Our business land development capacity assessment is in section 4 of Part 2 of this Assessment. We have estimated development capacity across the Palmerston North district but not the region, as Palmerston North is the only tier 2 urban environment in the Manawatū-Whanganui region. We have expressed this in floor area and converted it to hectares to add the competitiveness margins.

Clause 3.29(2) says we may define what it means for development capacity to be "suitable" in any way we choose. Still, suitability must, at a minimum, include suitability in terms of location and site size. We have determined suitability by looking at where business sectors are currently located in zones of the city and their floor area requirements compared to our Commercial Growth Strategy and District Plan, which directs particular business sectors to different zones in the City.

1.8 Assessing sufficient development capacity for business land

Finally, for the business land portion of Housing and Business Development Capacity Assessments, clause 3.30 of the Policy Statement requires us to include an assessment of sufficient development capacity for business land.

It requires us to clearly identify whether there is sufficient development capacity to meet the demand for business land in the district for the short, medium, and long term. This assessment must be based on comparing the demand for business land plus the appropriate competitiveness margins (see section 3) and the development capacity identified through clause 3.29 of the Policy Statement (see section 4).

The sufficient development capacity assessment is contained in section 5 of this Assessment. If there is any insufficiency found from the development capacity assessment required under clause 3.30, clause 3.30(3) requires us to identify where and when this will occur and analyse

the extent to which RMA planning documents, a lack of development infrastructure, or both, cause or contribute to the insufficiency. We have not identified an insufficiency, so we have not completed this analysis.

Our Population

As of June 2022, we had a population of 90,400 people. The distribution of Palmerston North's population by geographic area is shown in **Table 4** below.

Table 4 Estimated Palmerston North population by geographic area with the district (2022) [1]

	Annual population estimate			
	1996	**2012**	**2018**	**2022**
Main urban area	70,800	75,300	79,600	81,200
Minor urban area (Ashhurst)	2,530	2,710	3,030	3,240
Rural settlements (Bunnythorpe & Longburn)	830	1,090	1,070	1,110
Other rural	2,960	4,230	4,560	4,770
Palmerston North District - Total	77,100	83,300	88,300	90,400
Main urban area share of population	91.8%	90.4%	90.1%	89.8%
Urban area (main and minor) share of population	95.1%	93.6%	93.6%	93.4%

[1] Source: Stats NZ Tatauranga Aotearoa

Palmerston North district's key economic statistics are summarised in **Table 5**. More detail can be found in our Economic Overview attached to this Assessment as Appendix 1.

Table 5 Key population and economic statistics for Palmerston North.

	Key statistics	Annual % change
Population estimate (as at 30 June 2022)	90,400	0
GDP (current prices) – year ended December 2022	$6.32 billion	+2.6%
Number of employees (as at February 2022)	56,956	+2.2%
Annual earnings (salaries, wages, and self-employment) – year ending March 2022	$3,508 million	7.5%
Electronic card retail spending – year ended December 2022	$1,451 million	7.3%
Tourism expenditure – year ending December 2022	$273 million from domestic visitors $18 million from international visitors	4.2% 75.6%
City land area	39,500 hectares	0

1.1 Population projections

Table 6 shows Palmerston North's long-term population projections from 2023 until 2054. These projections have been selected as the most likely in the short, medium and long term. Further information on why these projections have been selected can be found in section 4.1 of Part 1.

Table 6 Long term population projections for Palmerston North (2023 - 2054)

	2023	2024	2029	2034	2039	2044	2049	2054
Palmerston North	94,400	95,139	99,383	103,980	107,977	111,605	114,701	117,280
Annual change		+739	+831	+884	+859	+762	+672	+567

The 2023 population growth model projects a slightly lower long term growth scenario than the previous model. A comparison of the two models is shown in Figure 1 below. By 2053, the 2021 model projected a population of 118,124. This compares with a population of 116,789 in 2053 by the 2023 model. This change will affect how many houses will be required to meet demand compared to our previous 2021 Housing Capacity Assessment.

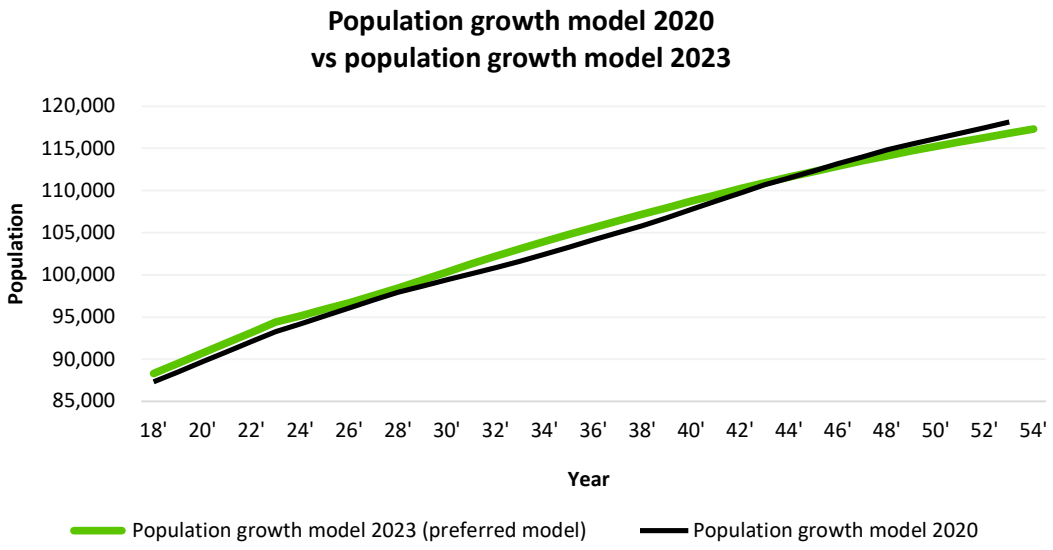


Figure 1 Population projection comparisons between 2020 and 2023 models

There are underlying assumptions that have changed between 2020 and 2023 that have impacted the city's population and household growth projections over the short, medium and long term.

The main changes to the assumptions underlying the population projections are:

- National net international migration will fall from the highs of the 2010s due to elevated global competition for labour, stabilising at long term averages of 30,000 per year.
- The regions will pick up a more significant share of international and internal migration due to the ability to work remotely.
- Unemployment is expected to increase due to falling economic activity and demand across New Zealand. This is expected to reduce the number of filled jobs in the city in the short term.
- Population growth from natural increase (births minus deaths) will reduce due to our ageing population.
- The ageing population will increase the number of one-person households in the city.
- A more significant number of Māori and Pasifika families will increase the number of multi-generational and larger households in the city.

1.2 Ethnicity projections

The increasing diversity of the Palmerston North population is reflected in the ethnicity projections for 2054:

- Māori populations will increase by 3.6% by 2054.
- Pasifika populations will increase by 1.2% by 2054.
- Asian populations will increase by 5.4% by 2054.

- European will decrease by 10.2% by 2054.

The projected change in the broad ethnicity in Palmerston North to 2054 is illustrated in Figure 2 below.

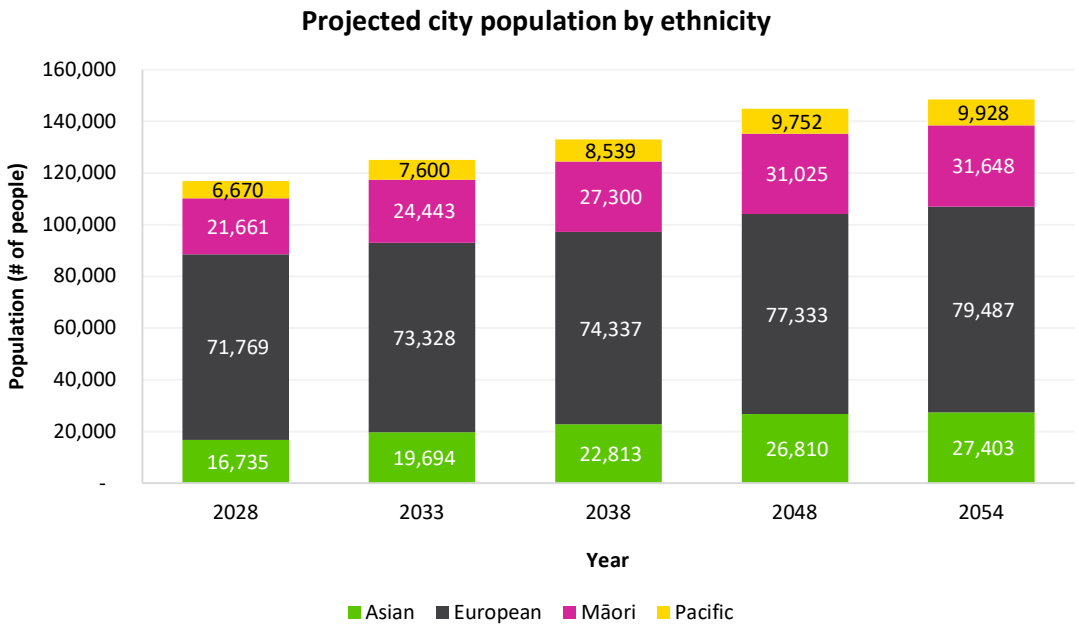


Figure 2 Projected city population by ethnicity

1.3 Household size projections

The combined changes in ethnicity and age influence the average household size of dwellings in the city. Figure 3 below compares the average household size from the 2020 projections (our previous population projection model) with the 2023 projections of average household size.

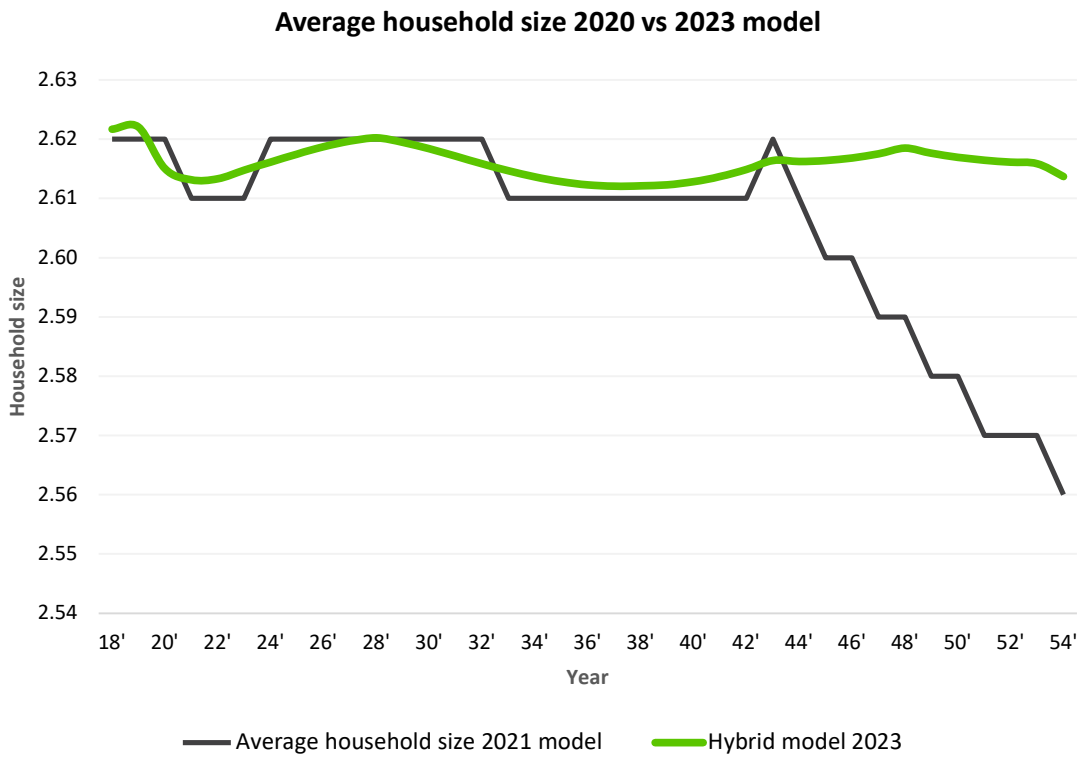


Figure 3 Average projected household size under the 2020 and 2023 model

The increase in the average household size projected over time has driven a slight reduction in the city's overall number of dwellings projected to be developed by 2054 (see Figure 4 below). Specifically, the 2020 household growth model projected a total of 45,750 dwellings in the city in 2053, compared to 43,289 in the 2023 household growth model.

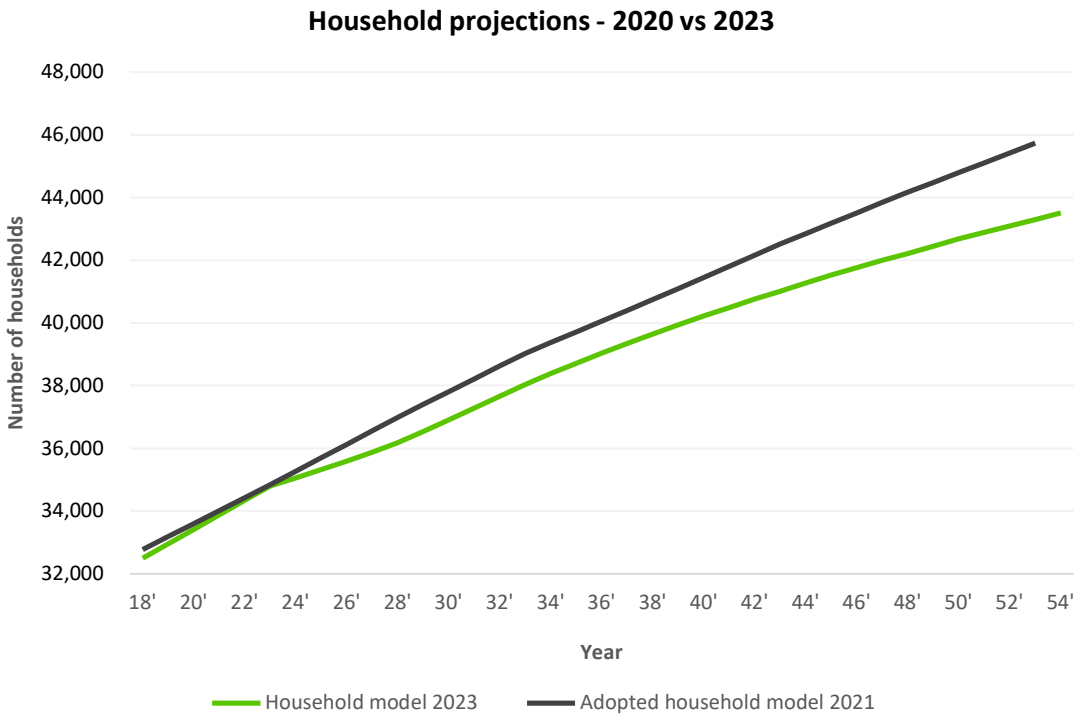


Figure 4 Household Projections 2020 vs 2023 model

The average household size is 2.61 persons. This differs because the 2021 projections assumed a decline in average household hold size to 2.56 by 2053 due to the impacts of an ageing population.

1.4 Family type

The number of families in the city is projected to increase by 27.8% (+7,028) from 2024-2054. Regarding family types and growth over the next 30 years – Two-parent families are projected to increase by 31.1% (+3,294) over the next 30 years. Couples without children are also projected to increase by 23.8% (+2,425) over the next 30 years. One-parent families are expected to increase by 28.7% (+1,309) over the same period.

The number of households is also projected to grow over the next 30 years by 24.1% (+8,451). The projected growth in multi-generational households is reflected in household growth modelling for the city. Family households are the most significant growth component, up 27.8% (+6,823) over the 30 years to 2054. One-person households are expected to increase by 19.1% (+1,551). Other multi-person households are expected to experience some growth to 2054, rising by 3.2% (+77) compared with 2024. Table 7 below shows the projected family type and household type, total households, and average household size out to 2053.

Table 7 Projections for families and households by types

	Family type				Household type				Average household size
Year	Couple without children	Two parents	One parent	Total	Family	Other multi-person	One person	Total households	
2018	9,283	9,536	4,373	**23,192**	22,516	2,391	7,593	**32,500**	2.6
2023p	10,118	10,458	4,523	**25,099**	24,368	2,372	8,061	**34,800**	2.6
2028p	10,449	11,061	4,712	**26,222**	25,458	2,383	8,344	**36,186**	2.6
2033p	10,996	11,722	5,009	**27,727**	26,920	2,432	8,682	**38,034**	2.6
2038p	11,446	12,348	5,276	**29,070**	28,224	2,461	8,958	**39,643**	2.6
2043p	11,776	13,010	5,519	**30,305**	29,422	2,423	9,161	**41,005**	2.6
2048p	12,101	13,507	5,709	**31,316**	30,404	2,427	9,382	**42,213**	2.6
2053p	12,510	13,823	5,844	**32,176**	31,239	2,442	9,607	**43,289**	2.6

1.5 Age projections

With people living longer and easing fertility and birth rates, the proportion of city residents aged over 65 years old is expected to continue to increase to 2054. We project the city's population over 65 years old to increase from 15,179 (16% of the population) in 2023 to 26,638 (22.7% of the city's population) in 2054.

This represents a 75.5% increase in residents aged over 65 years old. This ageing population is defined by the 'baby boom' generation, which started to reach 65 years old in 2011 and is expected to continue to pass 65 years old until 2030.

The projected change in the population of the city over 65 years is shown in Figure 5 below.

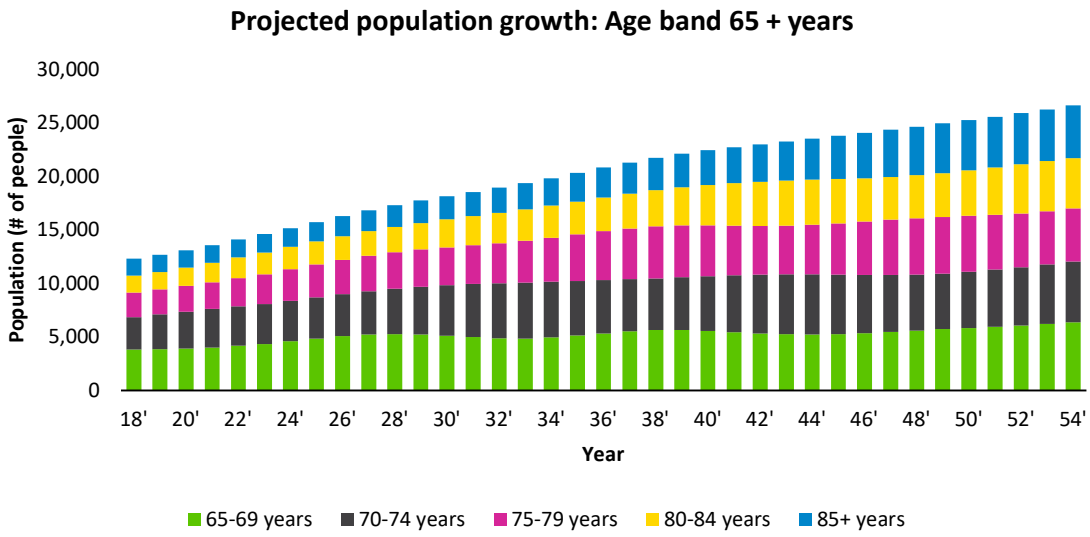


Figure 5 Projected population growth by age

The second largest age group we expect to grow in the city over the next 30 years is the 40-64 age group, projected to grow by 25.5% between 2024 and 2054. This is followed by a 9% increase in people aged 15-39 years and a 4% increase in children aged 0-14.

Table 8 below shows the projected population of each age group until 2054.

Table 8 Projected population by age

	Age 0-14	Age 15-39	Age 40-64	Age 65 and over	All ages
2018	17,218	33,666	25,067	12,349	88,300
2023	18,180	34,978	26,639	14,603	94,400
2024	18,130	35,160	26,669	15,179	95,139
2029	18,007	35,970	27,654	17,753	99,383
2034	18,156	36,046	29,924	19,855	103,980
2039	18,467	36,325	31,056	22,129	107,977
2044	18,604	37,986	31,488	23,527	111,605
2049	18,721	38,466	32,563	24,951	114,701
2054	18,852	38,333	33,457	26,638	117,280

While there are different growth trends, all age groups are expected to increase between 2024 and 2054. Reflecting the relative youth of the city's population, we estimate that people aged 20-24 will still make up the most significant proportion of residents compared to

other 5-year age groups, followed closely by those aged 15-19 years and 35-39 years. This is demonstrated in Figure 6 below.

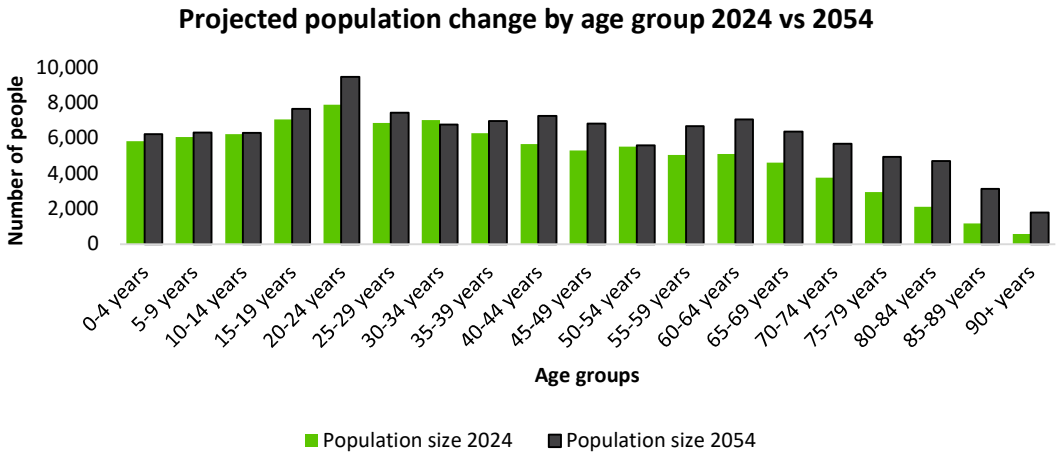


Figure 6 Projected population change by age group (2024 vs 2054)

1.6 Summary – Our population

This projected population growth, increasing diversity, changes in our district's average household size, and the number of residents in particular age groups mean that demand for the number of houses will increase. It will also change the types of housing our residents want over the next 30 years. As for business land, our commercial footprint is projected to increase with a growing population. We have used these population projections as part of our housing and business land demand assessments.

Engagement

The Policy Statement requires us to seek information and comments from specific people when preparing a Housing and Business Development Capacity Assessment. This means we need to engage with expert and experienced people in the development sector, providers of development infrastructure and additional infrastructure, and anyone else with information that would affect the calculation of housing and business land supply and demand[2].

This section explains what engagement work was undertaken to obtain key information and comments from these parties. We have also engaged with Rangitāne o Manawatū and Te Tihi o Ruahine Alliance to understand Māori housing needs and aspirations, including what papakāinga looks like in a Papaioea context.

1.1 Engagement with expert and experienced people

We regularly engage with the Palmerston North development community through 'Build Palmy', which consists of forums four times a year to present and discuss development-related topics.

We send monthly newsletters to over 250 Build Palmy subscribers with news from the Palmerston North building sector and council-related updates. The purpose of Build Palmy is to keep the development community up to date with Government requirements and issues being observed.

Over May-June 2023, a survey was sent to Build Palmy subscribers. The questions aimed to understand their issues and needs related to housing and business land within the district. The responses showed:

- The industry currently faces challenges meeting stormwater requirements and council processes.
- Rising construction and material costs across all aspects of the industry were also a key challenge.
- They are seeing increasing demand for smaller homes/multi-unit housing and standard family homes.
- There is some emerging demand for housing in the business zones and industry retailers/suppliers in the industrial zone.
- They want to see more land provided for housing within the city, greenfield land, and partnerships with the council, and they would like to see increased resource consent guidance.

[2] Under s3.21 of the National Policy Statement on Urban Development 2020

We know from feedback from our development community that the resource consenting process for multi-unit housing has been difficult to navigate for some. We have heard from them that the consenting process is uncertain, so some avoid it. We are working on a District Plan change to make medium-density housing rules more permissive and prescriptive to address this issue. As developers go through the consenting process and more multi-unit housing is built in the city, we also anticipate a level of familiarity will arise.

Overall, engagement with the development community indicated constraints in housing and business land development rather than any information or comment on future development plans or demand.

1.1.1 Observations from the housing development sector

Through previous engagement with housing development companies, we are observing:

- An increased mix of housing types is being offered for turnkey builds. These opportunities are around larger corner sites with multiple access options or conversion of larger non-residential sites in the Residential Zone.
- Emerging players in the development sector that have a high interest in multi-unit development as land values have made higher yields more attractive. These parties are typically interested in developing around locations close to business zones.
- Some smaller landowners in the Inner and Outer Business Zones have had an interest in previous years in redeveloping their aging commercial properties into mixed-use developments with apartments above their commercial premises. A lot of these opportunities have not yet been commercially viable to proceed with. However, we may see this change as building conditions and land values change to meet the right conditions for development.
- Some large developers in our planned greenfield growth areas are sceptical of the viability of new Local Business Zone areas and whether demand exists for medium-density housing in greenfield growth areas.
- We have had interest from developers who own or are speculating ownership in our western and eastern growth areas, particularly given that these areas host less fragmented blocks of land that can be more readily developed at scale.
- We have had interest from agents representing rural and industrial land owners wanting to explore private plan change requests for standalone housing or multi-unit development.

1.1.2 Observations from the commercial development sector

Through previous engagement with commercial development companies, we are observing:

- Larger development and construction companies, locally and outside the region, are investing in commercial property in the City Centre, particularly heritage-listed property along Church and Main Streets.
- Keen interest in redeveloping large landholdings in the City Centre to provide more high-quality accommodation to support the regional conference and function sector.

- High interest in speculative investment around the Te Utanganui Central New Zealand Distribution Hub to develop land for distribution centres and warehouses.

1.2 Engagement with infrastructure providers

We have contacted development and additional infrastructure providers to understand plans and constraints that may impact housing and business land.

These providers were asked for the following information:

- If they could identify any infrastructure issues in the city relating to residential growth or industrial and business development.
- What major infrastructure projects they have planned in the next 1-30 years.
- If they had any District Plan needs, for instance, designations.
- Any other feedback about residential, business, and industrial growth they would like us to know.

We received feedback from the following parties:

Table 9 Feedback from Infrastructure Providers

Party	Information received
Powerco	Powerco let us know about their significant projects planned for the Manawatū region, including: A new second Feilding zone substation and 33kV supply are scheduled for 2025. Turitea substation's second 33kV line and transformer upgrade are planned for 2025. A new 11kV Express feeder to the Palmerston North Hospital is scheduled for 2026. The new North East Industrial Zone substation and 33kV supply are planned for 2027. Rebuild Longburn substation scheduled for 2027. Kairanga substation transformer upgrade scheduled for 2027. The new Ashhurst zone substation and 33kV supply are planned for 2030.
KiwiRail	KiwiRail has resolved all appeals for the Regional Freight Hub designation. KiwiRail wishes to retain its existing designations and has no further plans to expand or alter current railway designations within the Palmerston North boundary. KiwiRail seeks that any plan changes involving residential growth near the rail corridor recognise the corridors' regional and national significance. When considering the rezoning of areas, consideration should be given to the health and safety of new lineside residents:

	That new development is set back from rail infrastructure. There are also rules providing for new noise-sensitive activities to be adequately mitigated for noise and vibration effects from railway corridor operations.
Horizons Regional Council	Horizons Regional Council is reviewing its flood modelling for the region, considering heightened concerns regarding the impacts of Cyclone Gabrielle.
Waka Kotahi NZ Transport Agency	Waka Kotahi is highly interested in the Palmerston North Integrated Transport Initiative, a key strategic document that informs growth. Community severance risk is a key concern of Waka Kotahi in relation to the Regional Freight Ring Road. They have a keen interest in how Palmerston North is growing in a way that enables well-functioning urban environments and has an intensification-first preference for growth to manage vehicle emissions. Waka Kotahi notes that stormwater and infrastructure constraints are a particular issue on the city's western side.
Ministry of Education	Whakarongo School is constrained from developing any larger due to infrastructure constraints with three waters. There is existing capacity and expansion opportunity within the schools along the city's western side to adequately service the Kākātangiata Urban Growth Area. The Aokautere Urban Growth Area would provide the necessary local population to warrant investment in a new primary school in the south of the City. Possible future housing demand at Bunnythorpe because Te Utanganui could be serviced through spare capacity at Bunnythorpe School.
Te Whatu Ora – Health New Zealand MidCentral District	Significant investment is planned to construct additional regional health facilities and supporting infrastructure at the Palmerston North Hospital.

1.3 Other information holders

There are a range of other information holders within Palmerston North who have information that may affect the calculation of development capacity. Through regular engagements, Build Palmy forums, or feedback on specific housing and business-related District Plan changes with these information holders, we are aware of the following:

- New Zealand Defence Force:
    - Replacement of all accommodation onsite at Linton Army Base is expected to start in 2026 (subject to funding).
    - Investment planned for a large logistics warehouse and high-density accommodation campus on the Ohakea Air Base.
    - Likely to invest in relocatable dwellings to provide 50 new dwellings at Waiouru.
- Retirement village operators:

    - We typically expect retirement village operators to show high interest in greenfield growth areas. For instance, private plan change requests in the Napier Road Residential Extension Area, Whakarongo, Kikiwhenua, and Aokautere Residential Areas.
- Kāinga Ora Homes and Communities (Kāinga Ora):
    - Kāinga Ora aims to build 300 dwellings in the City, with 219 of these delivered, in progress or planned for delivery by 2024/25. These developments are primarily a redevelopment of their existing landholdings, clustered mainly in Roslyn, Hokowhitu, Takaro, and Highbury.
    - Redevelopment of their existing landholdings usually occurs at a 1:3 ratio –3 homes replacing one dwelling on a site. However, some of their landholdings include more significant sites where agglomeration is possible, and more dwellings can be built.
    - Beyond redevelopment of their sites, Kāinga Ora has expressed an interest in acquiring new landholdings for development in other parts of the City. An example is development currently underway in the Fringe Business Zone in North Street.
- Manawatū District Council
    - Demand for industrial land is outstripping serviced land supply.
    - They are comfortable that their commercially zoned land is sufficient to meet demand.
    - Their rural land has significant highly productive land constraints, limiting their ability to fulfil demand for rural residential dwellings.

1.4 Māori

We need to analyse how well Māori are provided for in the current and future housing market and the impact that future planning for housing demand will have on Māori in the city[3].

We ran a workshop with Rangitāne o Manawatū and Māori housing provider Te Tihi o Ruahine Alliance to discuss challenges iwi and Māori are facing with housing and aspirations for the future. Table 10 details the outcomes of this workshop.

Table 10 Rangitāne o Manawatū workshop questions and responses

What we asked	Key Themes
"It's 2053. Describe your ideal housing and urban development situation for iwi and Māori."	To have a city grounded in values Te Ao Māori principles and practices are reflected in all areas of the City, and no damage to the environment. Partnership and Commitment

[3] Under s3.23(2) of the National Policy Statement on Urban Development 2020

	Writing the rules as Te Tiriti partners Iwi is leading for Iwi. Tangata whenua has a role to awhi maata waka who chose to make Papaioea their home. Identity is woven through Rangitānenuiarawa (Rangitāne practices and mātauranga knowledge) becomes a seamless part of the city's identity with a strong identity grounded in the landscape. Affordable and accessible Whānau live in homes that meet their needs, are affordable, and have mixed and holistic pathways to homeownership are provided. Places to connect Homes with community spaces for gatherings and to be able to express culture pathways recognising the communal benefits of neighbours and the broader concepts of whanau.
"It's 2053. Describe the worst-case scenario for urban development for iwi and Māori."	Increased segregation/marginalisation Concentrated areas of marginalised communities, increased homelessness, cultures unable to express themselves, and disconnected communities with no connection to whānau. Homes and neighbourhood environments being less fit for purpose Cookie-cutter homes are not responding to the needs of whānau and other communities, displacement and continued statistical trends of negativity for Māori at a greater level of disparity. Whānau not being able to realise their moemoea of home ownership. Reduced connection and wellbeing Reduction of greenspaces, total loss of whenua awa taio, 'concrete jungle', small homes for large families, unaffordability, low homeownership, increased mental unwellness, ongoing destruction of Wahi tapu and significant sites.
"What does Papakāinga look like to iwi? Draw your ideal Papakāinga.[4]" "Who does it serve?" "What does it provide" "Where is it located"	A kaupapa that is supported under the korowai of Rangitāne, particularly for Māori. A recognition that there are other successful communal models for non-Māori as well (e.g. Papaioea Place). Health-supporting, with access to wellbeing services and provides an uplifting wellbeing environment. Whānau achieving their moemoea in housing. Shared spaces and services that homes are oriented towards, with a collective kawa and tikanga that protects these shared spaces. An ara for belonging. Papakāinga have the places to bring people back to their turangawaewae, whether you are a whānau, on your own, or are a visitor. Mahi toi and other expressions of cultural identity feature and reinforce people's belonging.

[4] It is important to note, Papakainga can differ between different iwi and their needs and is not a one size fits all.

	Sustainability grounded. Connection to natural water, rongoa, maara and a responsible environmental approach secures independence and resilience. Understanding the history of the whenua when building. Leaving as small a footprint on the environment as possible in terms of house design and building.

Papakāinga principles in a Papaioea context are being incorporated into communities by Rangitāne and Te Tihi. Examples currently include:

- Kāinga Whānau Ora, introducing service support for healthy homes and development independence through maara kai.
- Kāinga Ora undertaking developments through an agreed framework with Rangitāne.
- Tū Ara Ake, an urban papakāinga that supported five whānau to home ownership under shared tikanga. The lessons from that are set to inform their second build.
- Further building of homes under their developed frameworks.

1.4.1 Barriers to providing for Māori housing demand

Some contributors to the risks raised in Table 10 include the rising costs of compliance, the costs for affordable housing providers being equal for private development, and the low awareness of levers for development.

Rangitāne o Manawatū and Te Tihi noted the risks of relying too heavily on average household sizes when describing housing demand. The average household size is currently 2.6 persons per household; however, this does not reflect the observed household sizes for Māori and Pasifika.

Smaller homes are unlikely to provide for whānau who need housing security the most. A breakdown of household data by ethnicity will be achieved once we receive the 2023 New Zealand Census results, which will be after this assessment has been produced.

Papakāinga is provided in the Residential Zone as a discretionary activity. This consenting category could represent a barrier to papakāinga housing being delivered. Māori could develop papakāinga using the multi-unit housing consenting pathway in the District Plan, but this will also be a discretionary activity if not within the areas.

1.5 Other groups in the community

The Policy Statement also requires us to analyse how well other groups in the community are provided for in the current and future housing market and the impact that future planning for housing demand will have on them.

From engaging with our Pasifika Reference Group[5]:

[5] Community Reference Groups | Palmerston North City Council (pncc.govt.nz)

- They have expressed that they want housing for multi-generational living and larger families as their communities are at risk of overcrowding.
- They have expressed an aspiration to see their community in homes across the city rather than just in one or two neighbourhoods.

From engaging with our Disability Reference Group[5]:

- We understand that existing housing often does not meet disabled people's needs, which can include the need for accessibility features.
- Those suffering from affordability issues struggle to find accessible homes as there is not enough stock of accessible social housing. They are often placed in emergency accommodation for long periods.

From engaging with our Seniors Reference Group[5]:

- They have expressed that homes need to include accessibility features so that seniors can age in place.
- They have observed a common trend with seniors wanting to downsize and age in place. However, they have also identified others wanting an affordable village environment with access to buses and libraries.
- In the migrant community, refugees find home ownership difficult, and it takes a long time to save for a house deposit. They tend to be renters or live in social housing.

1.6 Summary – Engagement

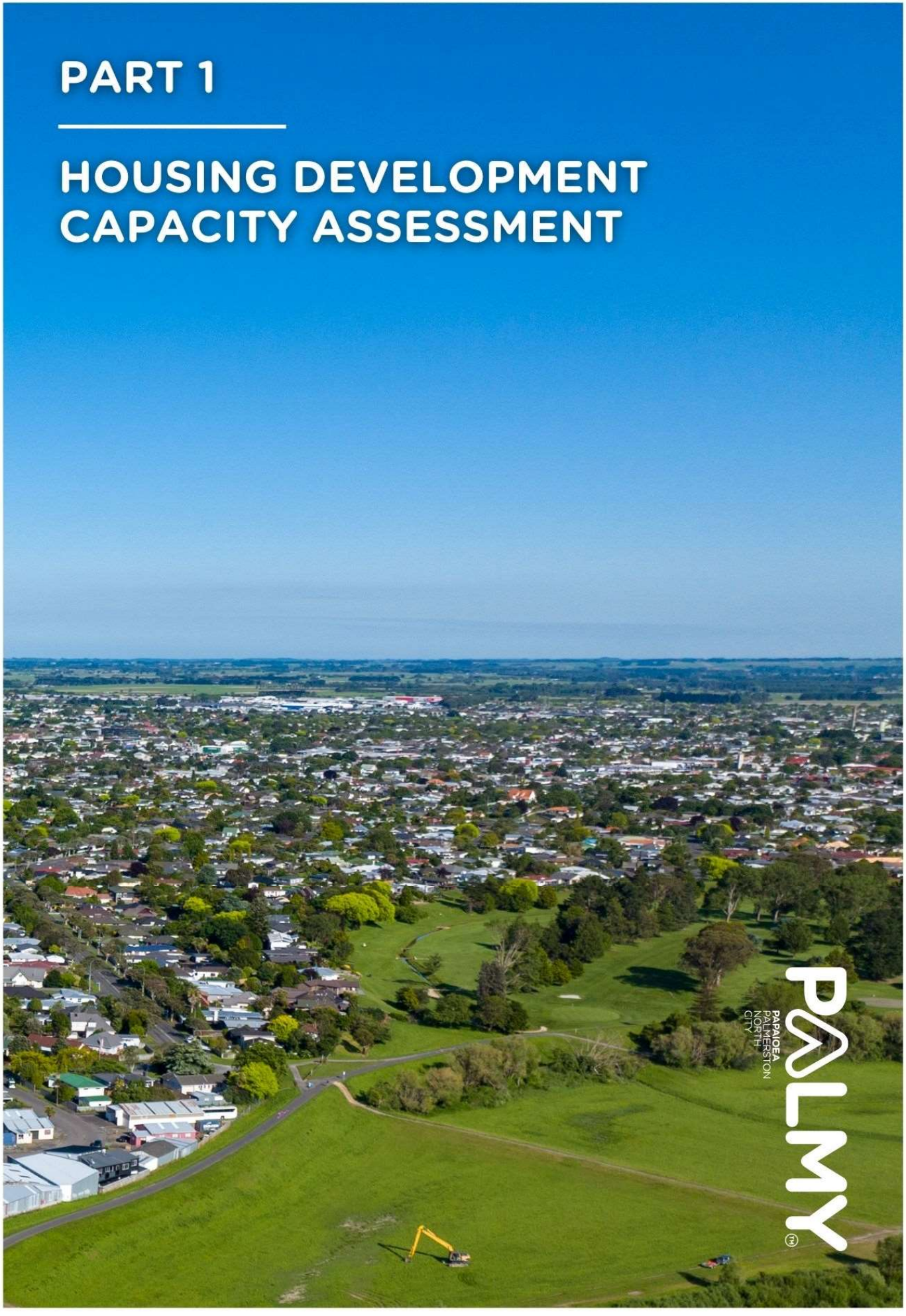
Key considerations that we can draw from recent engagement on housing and business needs are:

- We expect to see an increasing demand for smaller dwellings in the market and an increasing market response from existing and emerging developers.
- The trends experienced by those in the sector are unlikely to satisfy the household needs of Māori, Pasifika, and other communities with multi-generational living needs. We may see an increase in investment for papakāinga and cohousing to fill this need.
- If market demand is met, we expect seniors will have greater housing choice between downsizing to a 1-2 bedroom home or greater choice in retirement village options.
- Large public and private investment projects in the City and the surrounding region could compete with the labour market needed for housing and other business development capacity but are also likely to sustain demand for housing growth in the City.
- We may expect to see a conflict in our growth areas between the provision for schooling locally within our residential growth areas being uncertain and the interest from Waka Kotahi to reduce the need for local vehicle trips.

- We could expect to provide for more of a share of Manawatū District's industrial and rural-residential dwelling demand if their current constraints persist.
- Defence Force investment in relocatable dwellings may provide an opportunity for growth in building consents for relocatable dwellings in this District due to our development community's economies of scale for that housing type

PART 1

HOUSING DEVELOPMENT CAPACITY ASSESSMENT



1. Introduction

This Housing Development Capacity Assessment ('The Assessment') outlines a three-yearly review of projected land demand and supply to meet housing needs in Palmerston North. The National Policy Statement on Urban Development Capacity 2020 ('The Policy Statement') guides our Assessment to:

- Analyse the housing market and impacts of planning (section 3);
- Assess housing demand for the short, medium and long term (section 4);
- Assess development capacity (land supply) for housing for the short, medium and long term (section 5); and
- Assess whether we have sufficient capacity for housing (section 6).

In summary, we need 9,884 homes over the next 30 years, with 983 in the short term, 3,010 in the medium term, and 5,891 in the long term.

We estimate this demand will be spread over greenfield, infill and rural/rural-residential locations over the next 30 years as:

- 5,138 greenfield dwellings
- 4,251 infill dwellings
- 494 rural/rural-residential dwellings

Of the 9,884 homes we estimate we will need, 88% are expected to be standalone dwellings, and 12% are attached. We consider our attached dwelling projections to be overly conservative.

We have looked at our housing land supply and determined what is plan-enabled, infrastructure-ready, commercially feasible, and expected to be realised. We found:

- In the short term, there are 2,053 that meet these requirements, and of that, 1,408 are infill, 528 greenfield, and 117 rural/rural-residential
- In the medium term, there are 5,757, and of that, 3,238 are infill, 2,246 greenfield and 273 rural/rural-residential
- In the long term, there are 10,883, and of that number, 3,238 are infill, 6,865 greenfield and 780 rural/rural-residential

We have looked at our estimated demand and housing supply across the short, medium and long term and found sufficient capacity to meet the estimated demand. However, we will need to deliver on our development infrastructure in the greenfield growth areas as scheduled.

2. Our Housing Overview

This section gives an overview of our residential construction growth trends and the impacts of population projections on housing and looks at data that shows where and what type of housing is being built through the district. It also sets out our district planning context as it applies to housing. This information is used in our housing demand assessment in section 4.

2.1 Residential construction trends

For the year ending December 2022, 396 new dwellings were granted building consent, compared to the peak for the year ending December 2021 of 557.

The city has been experiencing a period of rapid economic growth over the previous five years. Before the COVID-19 pandemic, strong population growth accompanied this economic growth. Residential investment levels also increased over the same period, with investment in new dwellings peaking at 572 over the year to July 2020. Influenced by the historic undersupply of dwellings in the city alongside favourable investment conditions, elevated investment in new dwellings continued throughout 2021 despite a lack of population growth from the impact of border restrictions on net international migration.

Rising interest rates and high construction costs have impacted the level of residential investment since 2021, with the value of new residential buildings falling to $172.4 million over the year to December 2022. This compares with $227.8 million in building consents in 2021. The value of residential building consents in the city peaked at $228.2 million over the 12 months ending Nov 2021.

2.1.1 The types of dwellings being built

For a while now, houses have been the primary type of dwelling being built in Palmerston North; however, townhouses, flats and other dwellings are emerging as another typology in the city.

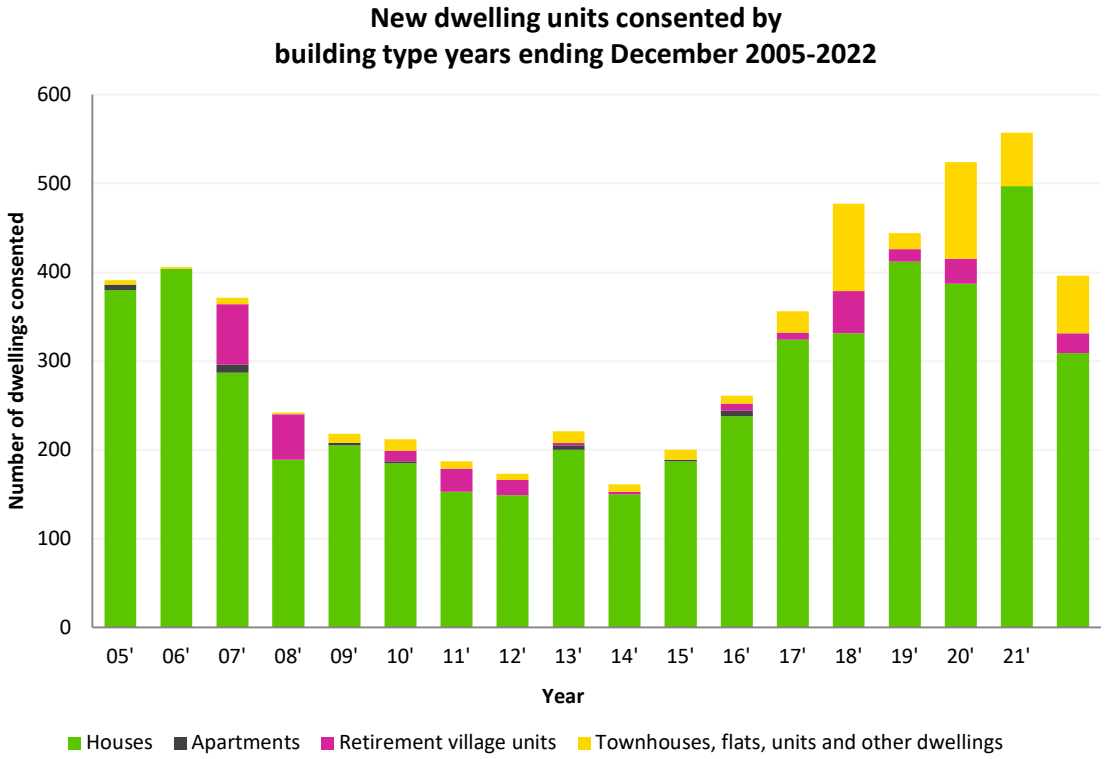


Figure 7 New residential dwelling units consented by building type 2005-2022

The annual number of dwellings consented from 2017 to 2022 are shown in Figure 8 below.

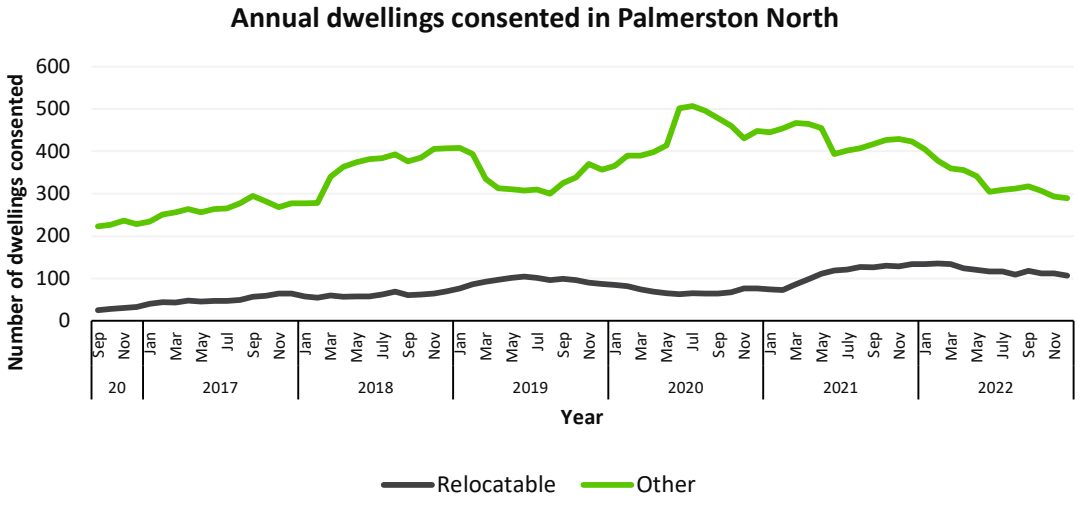


Figure 8 Annual Dwelling Consents

2.1.2 Where new dwellings are being built

Of the 396 new dwellings consented in 2022, 309 were houses, of which 107 were "relocatable", as shown in Figure 9 below. Measuring how much these houses added to the

housing stock in the city is challenging because there is a delay between the approval of the building consent and the completion of the approved houses. Based on available information compiled for the 2021/2022 financial year, at least 8% of relocatable homes will be destined for Palmerston North. Many of these houses are being constructed in the city for relocation to sites across the lower North Island.

Ten area units in Palmerston North accounted for 70% of new dwellings (non-relocatable) approved in the year to December (out of 40 area units). Although Tremaine has 101 new dwellings consented, four of the companies building relocatable houses (making up 97 units) are located in this area.

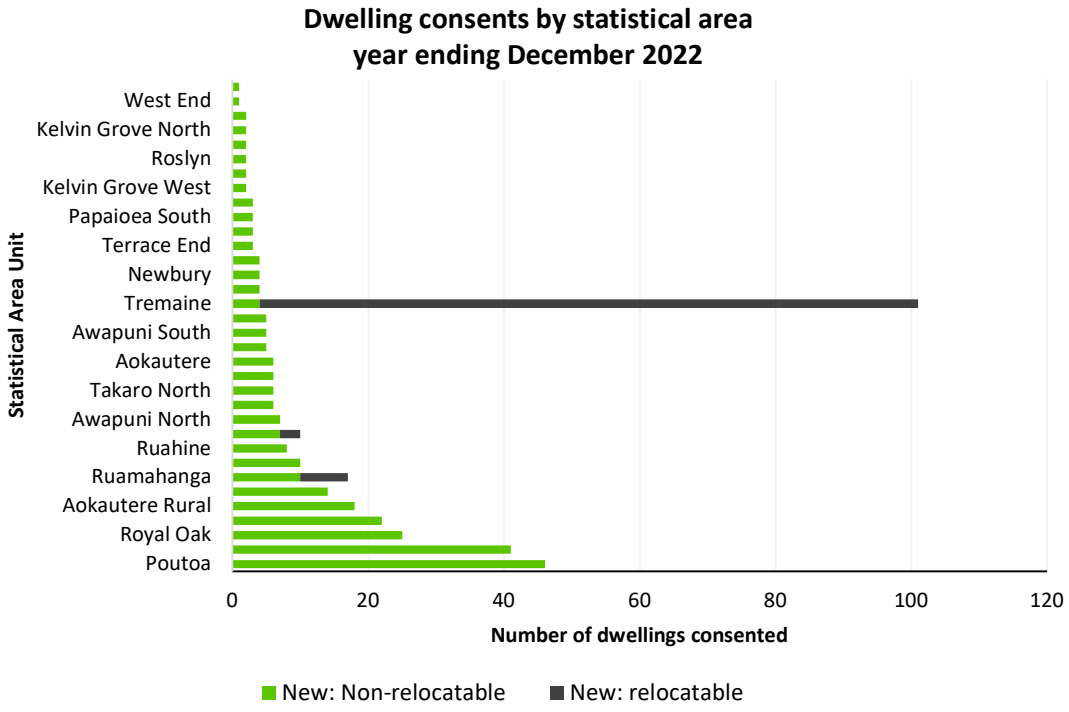


Figure 9 New Dwellings by Area By 2018 Statistical Area 2 (including relocatable) [6]

2.1.3 The size of new dwellings

The average floor area of new dwellings has been declining since 2010. The average floor area for standalone houses has reduced from 222 m2 in 2010 to 172 m2 in 2022. For all dwellings in the City, the average floor area is 157 m2. The decline in average floor areas is influenced by smaller-sized dwelling units such as apartments, townhouses and retirement village units. Figure 10 below demonstrates this.

[6] Source: Stats NZ

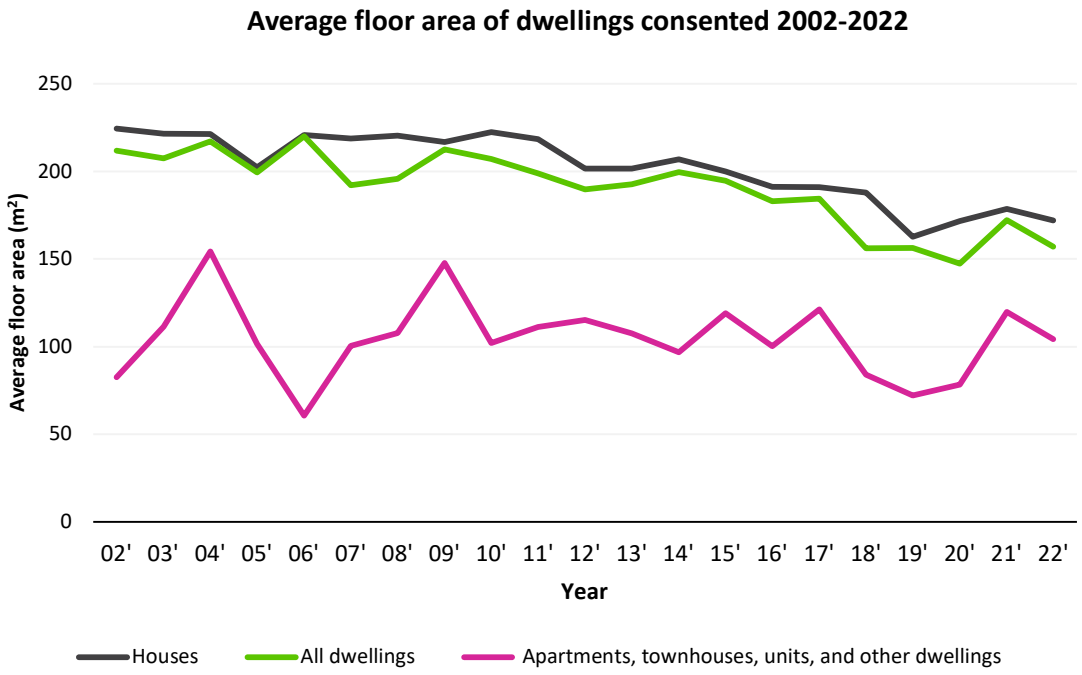


Figure 10 Average floor area of dwellings consented 2002-2022

2.1.4 Our housing development types over time

Looking at previous building consents issued between 1999 and 2022 shows where and what types of dwellings have been built in the city.

Table 11 below provides an overview of past building consents issued to show housing growth by housing type, which has fluctuated over time. The table shows that historically, dwellings in greenfield growth areas accounted for the highest proportion of new dwellings consented, and the infill share has been lower.

The decline in dwellings from 2008 onwards was due to the 2008 Global Financial Crisis.

Table 11 Historical building consent breakdown by housing development type

Year	Total building consents issued	Estimated net dwelling change	Housing development type (number and % share)							
			Greenfield		Apartments /retirement village/multi-unit/other		Infill		Rural/rural-residential	
	number	number	number	%	number	%	number	%	number	%
1999	263	244	111	45%	0	0%	96	39%	37	15%
2000	227	215	123	57%	0	0%	58	27%	34	16%
2001	249	242	138	57%	0	0%	71	29%	33	14%
2002	305	281	151	54%	0	0%	84	30%	46	16%
2003	361	352	168	48%	34	10%	100	28%	50	14%
2004	412	409	241	59%	12	3%	107	26%	49	12%
2005	377	347	221	64%	0	0%	95	27%	31	9%
2006	445	426	239	56%	60	14%	84	20%	43	10%
2007	346	325	151	46%	68	21%	92	28%	14	4%
2008	234	231	96	42%	51	22%	56	24%	28	12%
2009	209	187	115	61%	0	0%	49	26%	23	12%
2010	207	172	69	40%	12	7%	61	35%	30	17%
2011	183	161	57	35%	28	17%	63	39%	13	8%
2012	171	150	44	29%	17	11%	68	45%	21	14%
2013	221	211	70	33%	16	8%	101	48%	24	11%
2014	161	145	55	38%	11	8%	57	39%	22	15%
2015	200	130	43	33%	13	10%	55	42%	19	15%
2016	261	210	99	47%	14	7%	73	35%	24	11%
2017	356	268	133	50%	6	2%	89	33%	40	15%
2018	477	350	125	36%	50	14%	151	43%	24	7%
2019	444	335	130	39%	87	26%	94	28%	24	7%

2020	524	411	121	29%	126	31%	121	29%	43	10%
2021	376	370	130	35%	35	10%	145	39%	60	16%
2022	339	232	67	29%	46	20%	76	33%	43	18%
Average 1999-2022	**306**	**267**	**121**	**44%**	**29**	**10%**	**85**	**33%**	**32**	**12%**

Note: the difference between total consents authorised and net dwelling stock change includes the replacement of existing dwellings and the movement of new relocatable houses to other areas

Dwellings approved before July 2012 in the boundary change area with Manawatū District are not included in the dwelling counts.

Source: Palmerston North City Council

2.2 Households in Palmerston North District

There are an estimated 34,800 households in the city as of June 2023. This is an increase of 2,300 households compared with June 2018, equalling an annual average growth rate of 1.3% per year.

Households are a theoretical indicator that reflects a grouping of individuals or families that live in a single dwelling. A household does not reflect the number of dwellings by place but is often used as a proxy for dwellings or the number of residential units.

The number of households is affected by a range of factors, such as a change in the composition of households from an increase or decrease in multi-generational households, overcrowding, fertility rates, age structure of the population, and an undersupply of housing. The housing crisis in New Zealand has influenced the formation rate of larger households as access to and affordability of housing has prevented some families from accessing individual housing.

Another factor that may have recently contributed to an increase in household size is the housing shortage impacting Palmerston North. Anecdotal data suggests that families are opting to move in with other family members due to a lack of access to and affordability of independent housing. The 2023 Census will provide a greater understanding of the housing shortage's impact on overcrowding levels in our city from 2018-2023.

2.3 Family and household types in our district

There are various family types in the district as of June 2023. Table 12 shows the family type and household type in 2018 and 2023.

Table 12 Family and household types

	Family type				Household type				Average household size
	Couple without children	Two parents	One parent	Total	Family	Other multi-person	One person	Total households	
2018	9,283	9,536	4,373	23,192	22,516	2,391	7,593	32,500	2.6
2023p	10,118	10,458	4,523	25,099	24,368	2,372	8,061	34,800	2.6

2.4 The District planning context

Housing is provided for across the district through our District Plan. Primarily, housing is enabled in our residential zone, particular residential areas (such as our brownfield and greenfield residential areas and the multi-unit housing areas), rural-residential overlay, rural zone, and business zones (when above ground floor level and if it does not restrict business use or growth).

2.4.1 The residential zone

Our residential zone provides conventional standalone housing and minor dwelling units as permitted activities. Our District Plan allows up to two dwelling units, or one dwelling and a minor dwelling unit, or one dwelling unit and one sleep-out as a permitted activity. Permitted activity standards relating to setbacks from other dwellings on the same site require that if attached housing is proposed, it is joined by a garage or set 3 metres apart.

Our multi-unit housing areas provide for multi-unit housing as a restricted discretionary activity. This type of housing development outside the areas is provided for as a discretionary activity. Papakāinga is provided in the Residential Zone as a discretionary activity.

2.4.2 Residential areas within the residential zone

Over time, we have rezoned particular areas of the city and applied area-specific objectives, policies and rules to manage housing within them. This has included both greenfield areas and brownfield sites. Our residential areas are:

- Hokowhitu Lagoon Residential Area
- Kikiwhenua Residential Area
- Whakarongo Residential Area
- Napier Road Residential Area and Extension Area
- Mātangi Residential Area

These areas permit conventional standalone houses, but in some instances, like the Mātangi and Hokowhitu Lagoon residentials, they provide for more intensive housing types, including multi-unit.

2.4.3 Subdivision rules

Our District Plan subdivision rules enable subdivision in the district as a controlled activity in most cases so long as standards are met. Minimum lot sizes throughout the district are:

- 350m^2 in the Palmerston North urban area
- 500m^2 minimum lot size in Ashhurst, Napier Road Extension Area, and Longburn and Bunnythorpe village areas.
- 400m^2 of developable land in the Aokautere Development Area and an average area requirement for the lots of 600m^2
- 20 hectares in the Rural Zone
- 1 hectare in the Rural Residential Overlay

2.4.4 Housing in the business zones

Our business zones enable housing above the ground floor as a restricted discretionary activity and subject to the housing not affecting the supply of business floor space to meet demand.

2.5 Summary – Our housing overview

There are lots of moving parts in our housing markets. Construction trends show that investment in new homes across the district has been high in recent years. Different housing types are also emerging, and trends in where homes are being built and their floor area. The number and types of households in the district are diverse and have been driving the number of homes and types built. Finally, our District Plan enables different types of housing at various locations throughout the district.

3. Analysis of the Housing Market and Impacts of Planning

Clause 3.23 of the Policy Statement requires our Assessment to include an analysis of the housing market and the impacts of planning. The Policy Statement requires our analysis to include an analysis of how our planning decisions and infrastructure provision affect the affordability and competitiveness of the local housing market.

It must also include an assessment of how well current and future demand for housing by Māori and different groups in the community are met, particularly the demand for different housing types and forms of housing from other groups.

To inform this analysis, we must look at:

- Market indicators, including indicators of housing affordability, demand and supply;
- Information about household incomes, housing prices, and rents; and
- Price efficiency indicators.

3.1 Market indicators for housing affordability

3.1.1 House values

The average house value in Palmerston North in December 2022 was $659,450, down 12.1% compared with December 2021.

Average house values in Palmerston North peaked in January 2022 at $754,212, with the national average house price peaking at $1,043,261 in March 2022. As shown in Figure 11 below, values have declined since early 2022, with signs of stabilisation in early 2023.

Rising interest rates, alongside tightening financial market settings since December 2021, have affected the ability of buyers to secure finance and service mortgage payments. This is reflected in affordability indicators, which show an improvement in the ability of home buyers to save for a house deposit, alongside a deterioration in the ability to secure finance and afford mortgage repayments.

House prices rose sharply in 2020 and 2021 as low mortgage interest rates and access to finance increased housing demand. Median house prices in the city peaked at $746,000 in

December 2021, up 42.1% on pre-pandemic prices compared to 45.7% nationally. Higher interest rates and the tightening of credit conditions in 2022 were effective in reducing housing demand. House prices in the city fell by more than the national fall of 17.1%, down 21.3% from the market peak to December 2022. The first four months of 2023 suggest stabilising house prices in Palmerston North and nationally.

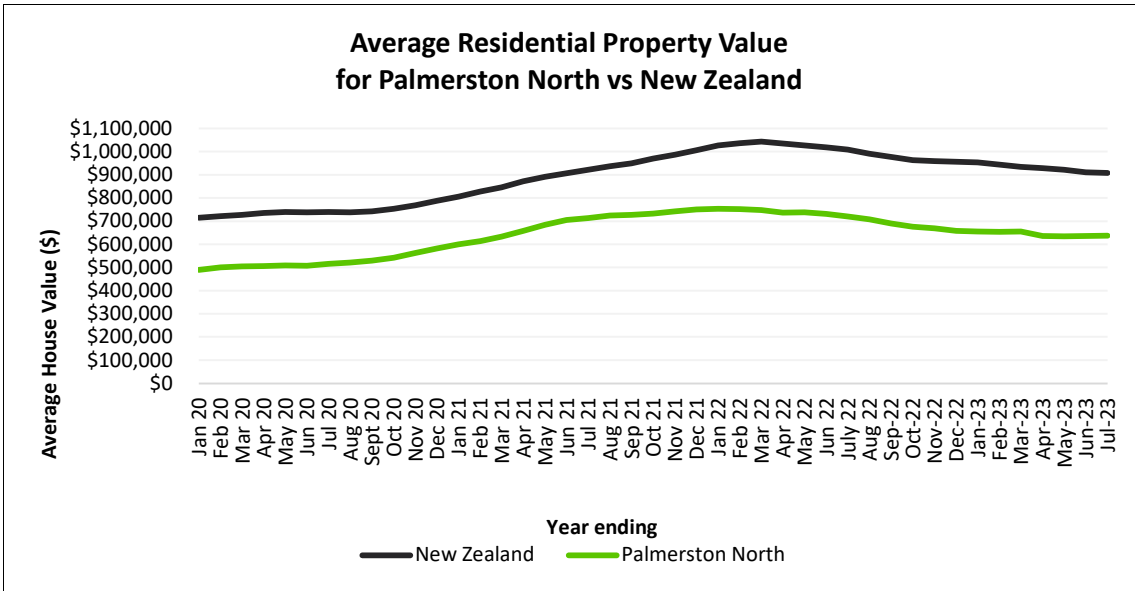


Figure 11 Average Residential Property Value for Palmerston North vs New Zealand[7]

The average value of $659,450 in Palmerston North in December 2022 was on the low end of comparable-sized urban areas, as shown in Figure 12 below.

[7] Source: CoreLogic House Price Index

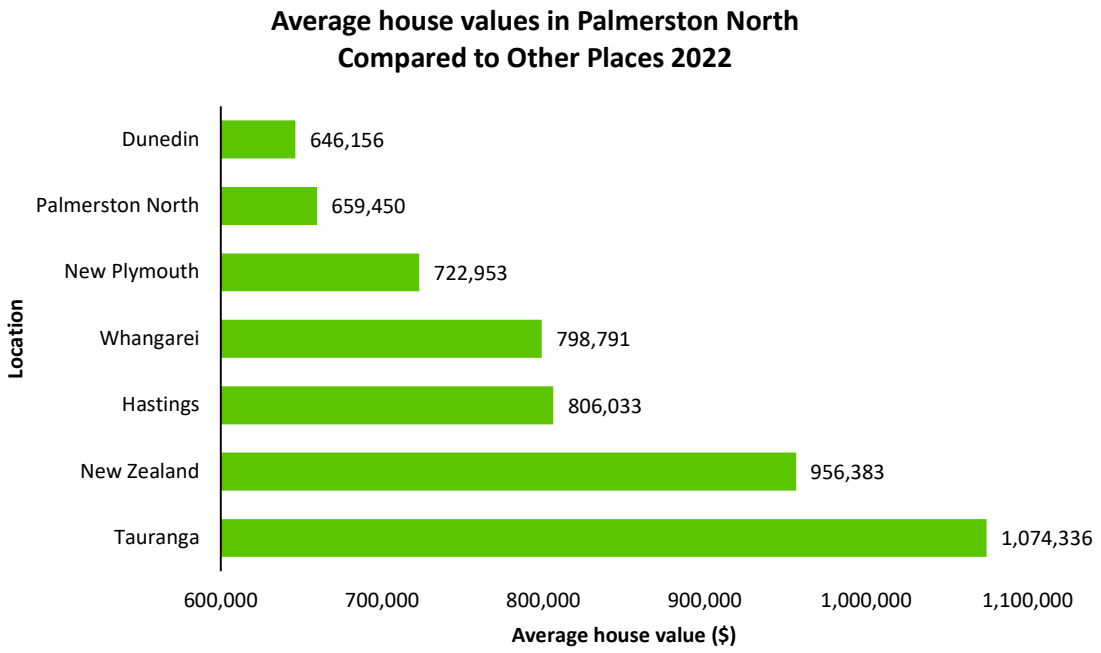


Figure 12 Average house values in December 2022[8]

3.1.2 House sales and prices

1,140 houses sold in Palmerston North over the year to December 2022. This is a decline of 19.9% in the city over the year. This compares with a 30.2% fall in house sales nationally over the same period. The average median sales price for December 2022 was $615,000 compared with a median sales price of $657,667 for the year ending December 2022. This suggests that house prices are stabilising in the city, with monthly median sales prices exceeding the 12-month average. Signs of market stabilisation have continued in the first half of 2023. The annual trend in house sales and median house prices in the city is reflected in Figure 13.

[8] Source: CoreLogic House Price Index

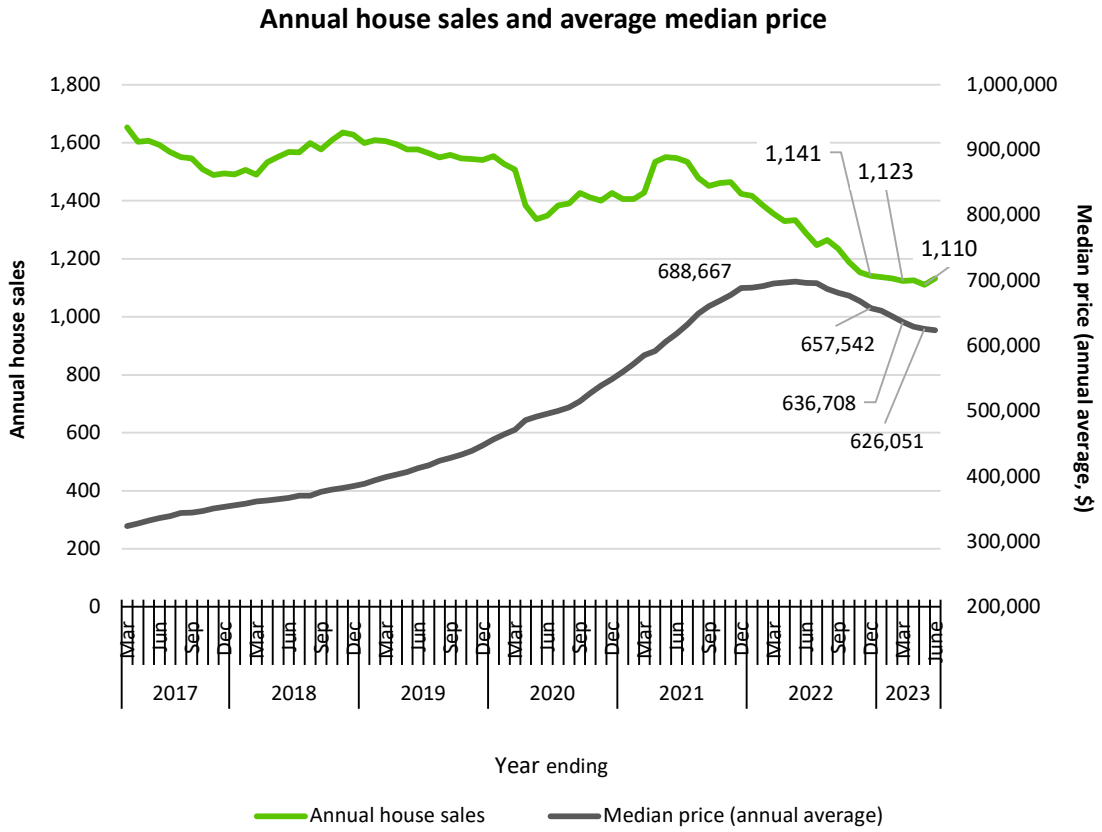


Figure 13 Annual House Sales and Average Median Price for Palmerston North 2017-2023

3.1.3 Home ownership affordability

Comparing house values and average household incomes can be used as a proxy for housing affordability. A lower ratio means it is more affordable to own a home. A higher ratio means housing is less affordable. The graph below shows the ratio of average house value to estimated annual average household income in Palmerston North and New Zealand.

Falling house prices and rising incomes have supported housing affordability in the city, with the ratio of average house price to average income falling to 5.8 in the December quarter of 2022. This is an improvement in housing affordability from 7.2 times the average income in December 2021. The ratio of average house price to average income nationally was 7.7 in December 2022, reflecting the relative affordability of home ownership in Palmerston North. This is mainly due to relatively lower house prices. However, rising interest rates and households coming off lower interest rate fixed term mortgages may start to see homeownership affordability decrease.

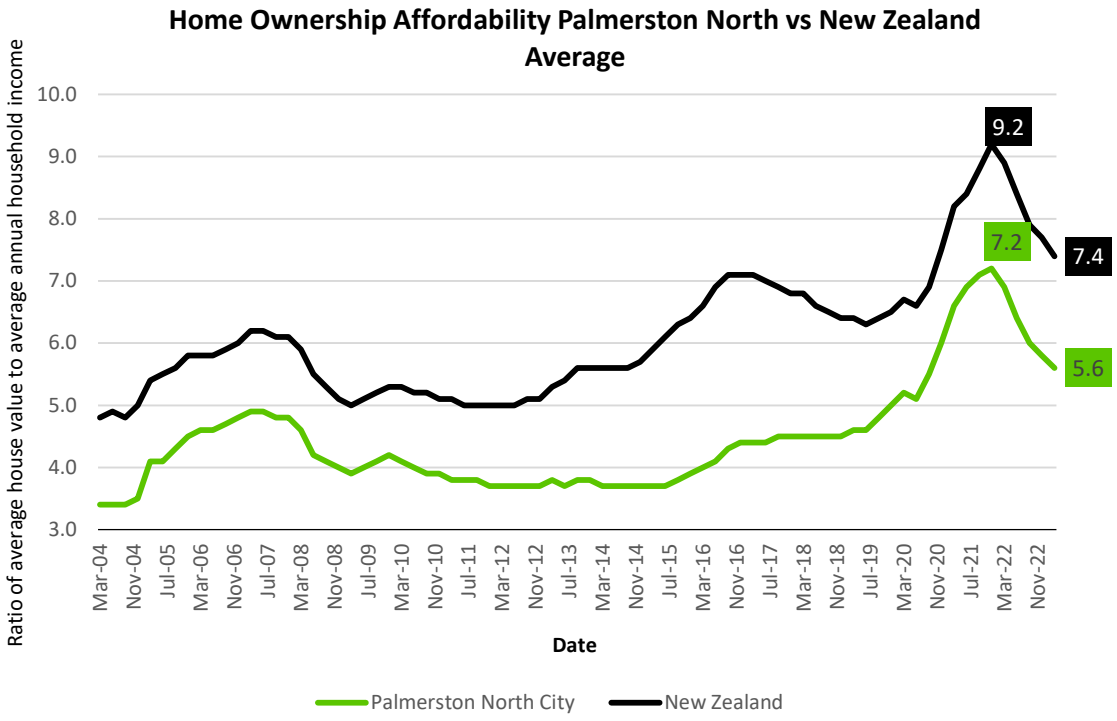


Figure 14 Home Ownership Affordability Palmerston North vs New Zealand Average

Figure 15 shows that Palmerston North has remained more affordable than comparable New Zealand places.

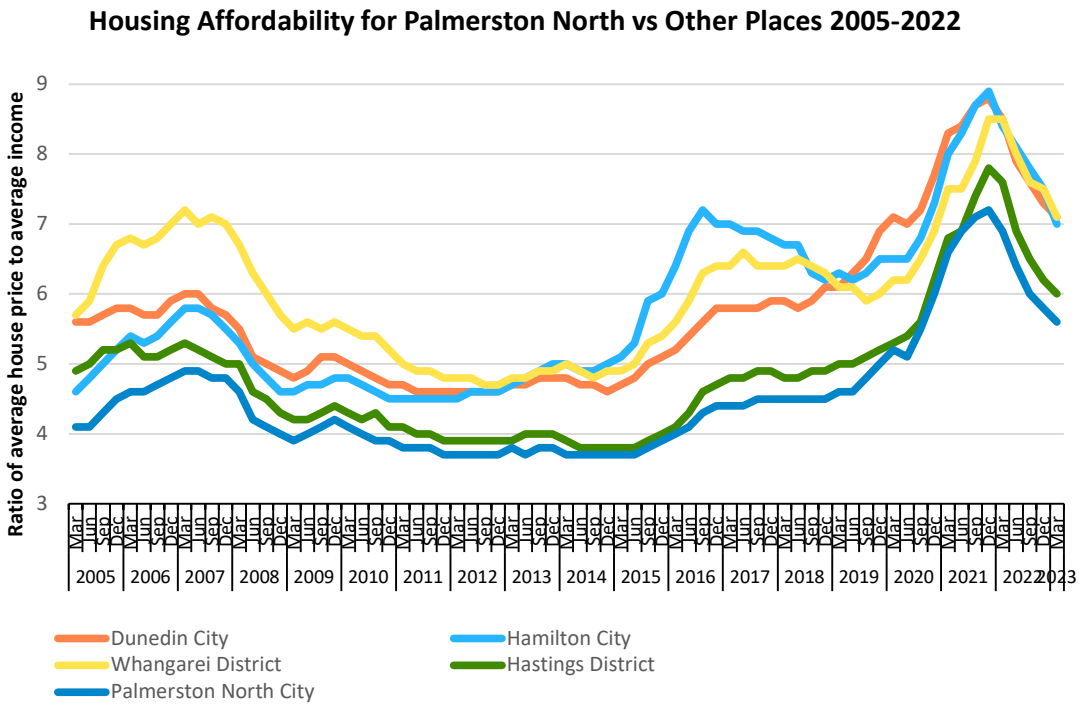


Figure 15 Housing Affordability for Palmerston North vs Other Places 2005-2022

The following two housing affordability indicators show that home ownership affordability has changed over time in Palmerston North compared to the New Zealand average.

3.1.4 Change in housing affordability indicators

The Change in Housing Affordability Indicators[9] show the affordability of people entering the market in terms of:

- Servicing a mortgage
- Saving for a deposit, and
- Renting a home

This indicator compares changes in house sales prices with the growth in median household disposable (after tax) income. Factors that can affect deposit affordability are:

- House sales prices
- Household disposable income

Based on this indicator, relative deposit affordability has declined in Palmerston North since about mid-2016, much later than the New Zealand average. Deposit affordability has improved since the end of 2021, when house prices began to decline.

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

3.1.5 Change in mortgage serviceability indicator

This indicator compares changes in the purchasing power of mortgage interest payments for new home loans with the growth in median household disposable (after tax) income. Factors that can affect mortgage serviceability are:

- Mortgage interest rates
- House sales prices
- Household disposable income.

Based on this indicator, serviceability improved from 2019 until the end of 2020 due to a decline in interest prices, after which mortgage serviceability decreased as interest prices increased.

3.1.6 Affordability for typical first-home buyers

Interest.co.nz has used the measure of the proportion of take-home pay needed to make the mortgage payment for a typical household. If that is less than 40%, then a mortgage is generally considered 'affordable'. The table below compares home loan affordability for typical first-home buyers in 5 cities in New Zealand in terms of mortgage payment as a percentage of after-tax-pay. The table presents calculations based on the following:

- 10% deposit for a home purchased at the Real Estate Institute of New Zealand's lower quartile selling price.
- weekly income is based on the combined median after-tax pay for couples aged 25-29 if both work full-time

Among the five cities, Palmerston North has the lowest mortgage payments as a percentage of after-tax pay due to a combination of median income and lower quartile house prices, and affordability has started to improve in 2022 for most cities.

Table 13 Home loan affordability for typical first home buyers: mortgage payments as a % of after-tax pay[10]

City	May 2020	Nov 2020	Feb 2021	Nov 2021	Apr 2022	Nov 2022	May 2023
Hamilton	32.5%	32.2%	33.1%	49.8%	52.0%	51.1%	48.9%
Whangarei	22.2%	26.8%	26.8%	40.3%	42.8%	42.0%	44.1%
Hastings	27.8%	31.3%	32.8%	45.3%	48.9%	46.8%	43.5%
Dunedin	27.5%	30.4%	30.8%	40.9%	40.7%	43.4%	39.2%
Palmerston North	24.1%	27.6%	29.5%	39.9%	39.8%	41.3%	36.9%

3.2 Market indicators for rental affordability

3.2.1 Rental market demand

The figure below shows the number of active rental bonds from 1993 to 2022 and its percentage share of New Zealand's active bonds. There were 7,665 active rental bonds in December 2022, an increase from 7,539 active bonds in December 2021. The active bonds in Palmerston North were 1.9% of total active bonds in New Zealand, a slight decrease from 2.0% in 2021. Whilst the number of active bonds more than doubled since 1993, its percentage share of New Zealand's has declined from 3% in 1993 to 1.9% in 2022, indicating that the supply of rental properties in Palmerston North has not been growing as fast as the rest of New Zealand.

[10] Source: Interest.co.nz

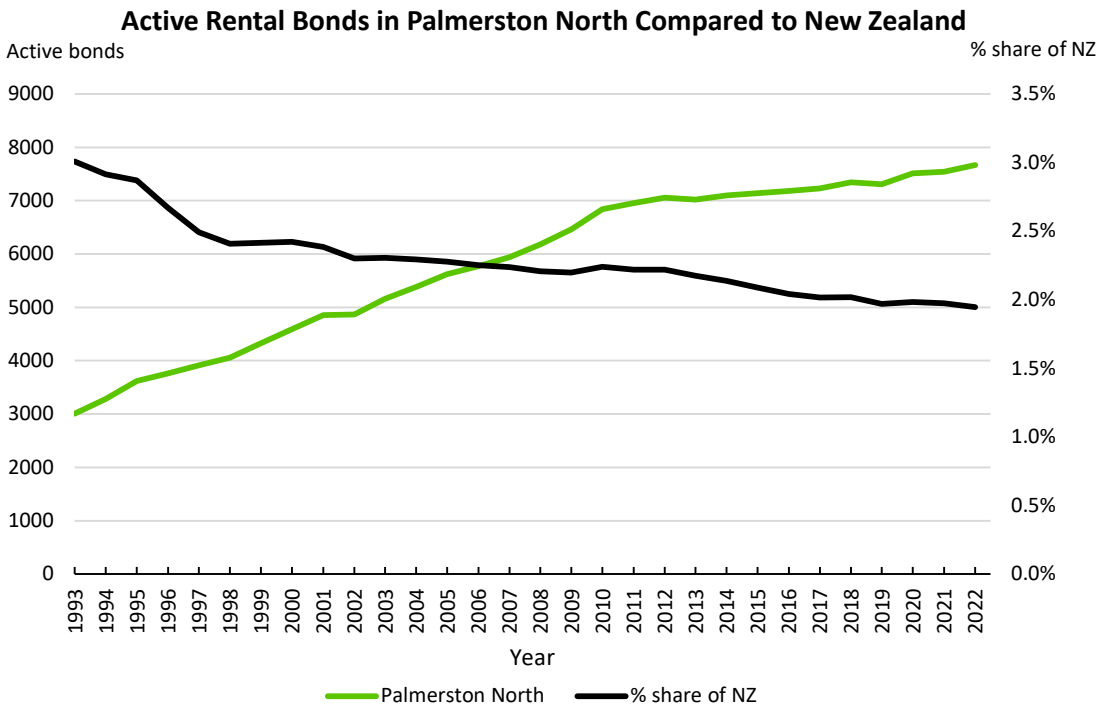


Figure 16 Palmerston North active rental bonds

3.2.2 Rental homes and prices

The number of properties in the formal rental market[11] is increasing nationally and in Palmerston North. Properties rented in the City increased by 126, up 1.7% from December 2022. This compares with 3.2% growth nationally over the same period. The latest data indicates further strengthening, with the number of rental properties in Palmerston North increasing by 174 over the first three months of 2023.

Rental prices continue to rise but at a slower rate than the New Zealand average (see **Figure 17**). Rental prices were up 6.7% in the City over the year to December 2022. Weekly rents across the country increased by 5.8% over the same period. The average weekly rent in Palmerston North in December 2022 was $445 compared with $520 nationally.

[11] The formal rental market is where a bond has been lodged with tenancy services. The informal rental market (where a bond has not been formally lodged) can only be estimated through the five-year national Census.

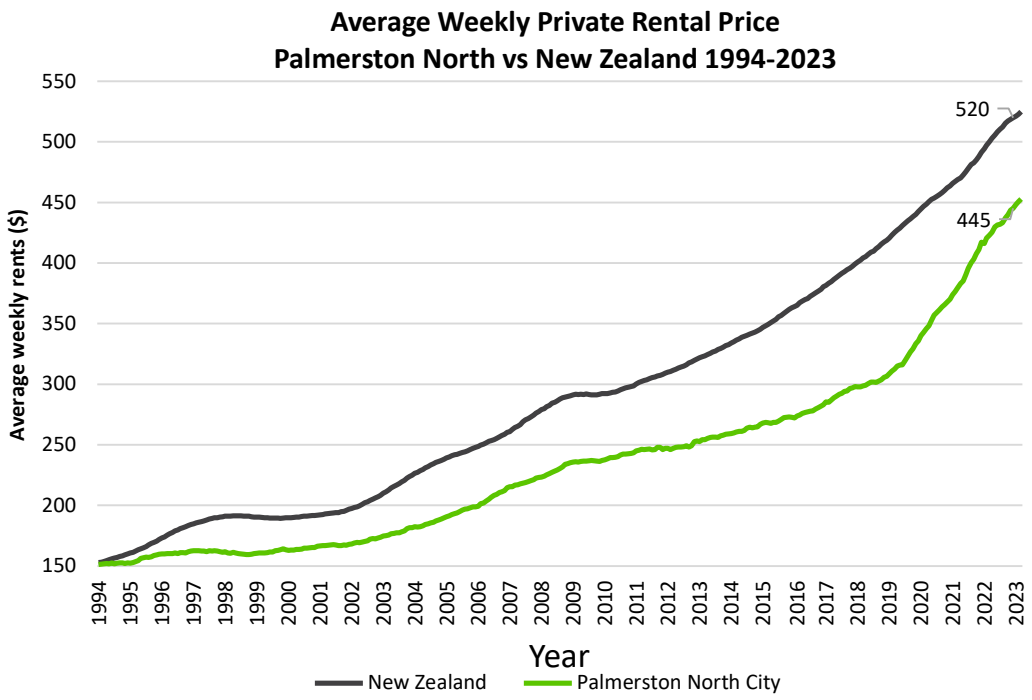


Figure 17 Average Weekly Private Rental Price Palmerston North vs New Zealand 1994-2023

3.2.3 Rental affordability

The rental affordability measure compares changes in rental prices for new tenancies with the growth in median household disposable (after tax) income. Factors that can affect rental affordability are:

- Rental prices
- Household disposable income

Based on this indicator, there has been a decline in rental affordability from 2017 in Palmerston North. Average rental affordability has somewhat improved. This is due to a relatively higher increase in rental prices in Palmerston North, especially since the latter part of 2018.

The graph below shows 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 20.6% of the estimated average yearly household income compared to New Zealand's average of 21.9%.

In March 2023, the gap narrowed slightly - average annual rent in Palmerston North increased somewhat to 20.8% of the estimated average yearly household income compared to New Zealand's average of 21.8%.

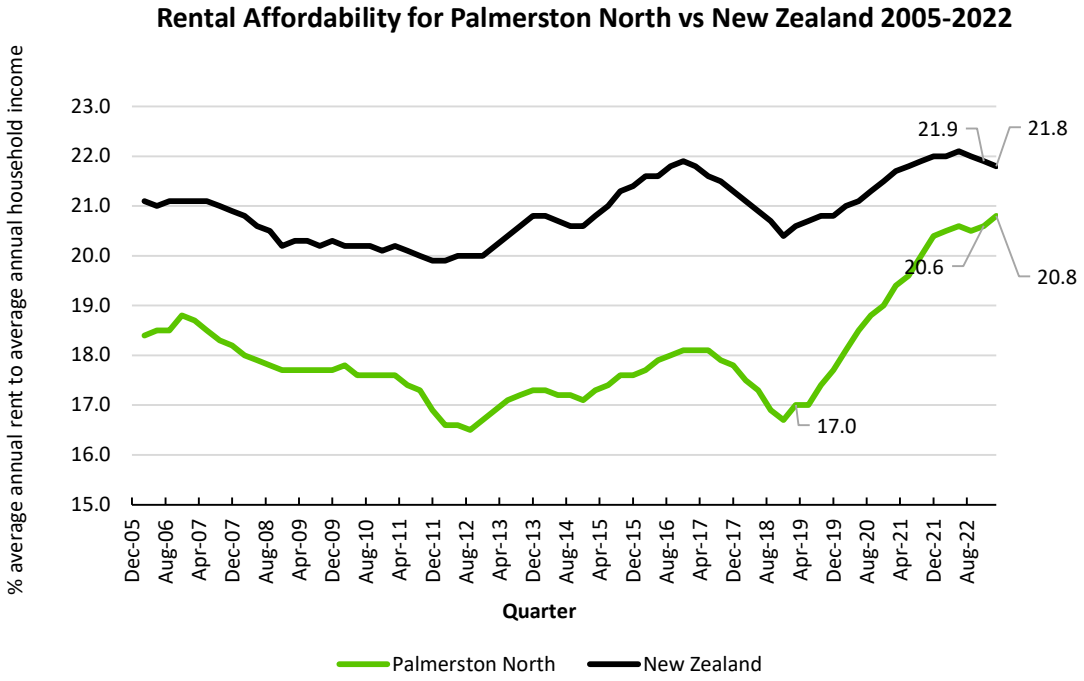


Figure 18 Rental Affordability for Palmerston North vs New Zealand 2005-2022

Rents are still affordable in Palmerston North compared to other similar-sized cities. The rental affordability measure indicates that the affordability of renting in Palmerston North has deteriorated over the last year, with the ratio of annual rents to household income increasing above Hastings and Hamilton. While this deterioration is observed over a short period and is not necessarily an indication of a longer-term trend, this is highlighted as an indicator to watch.

For the period ending December 2022, the average weekly rent (over 12 months) in Palmerston North increased from $445 to $453 (1.8% increase). The national average weekly rent increased from $519 to $525 (1.2% increase).

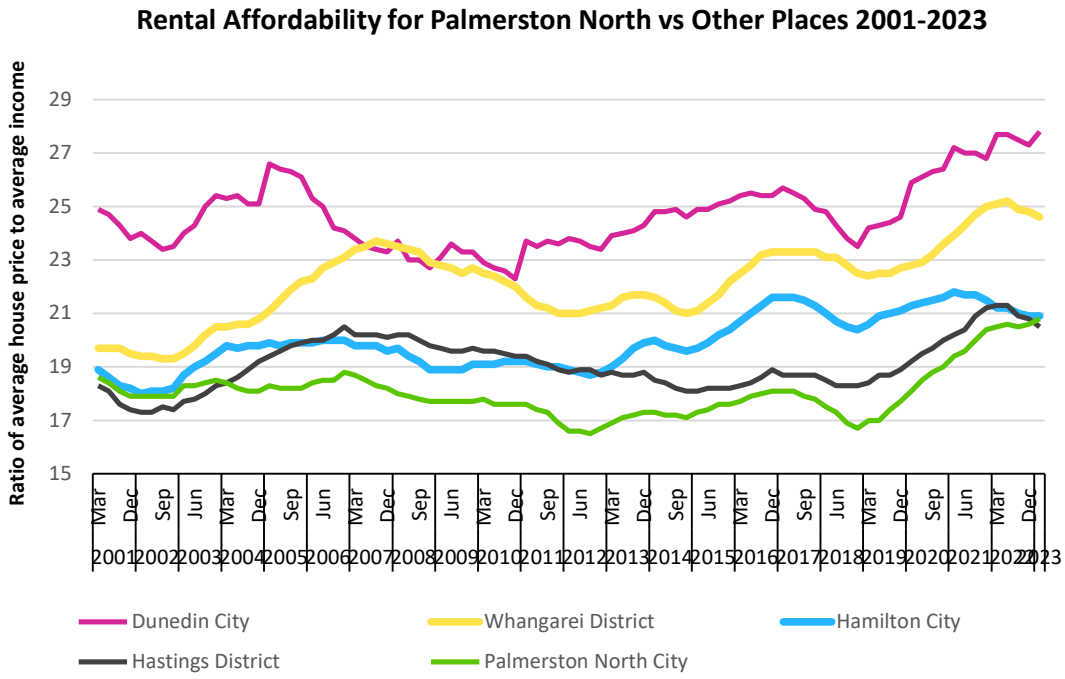


Figure 19 Rental Affordability for Palmerston North vs Other Places 2001-2023

3.2.4 Public housing demand

The number of households on the public housing register is declining nationally and in Palmerston North. Numbers in the city fell from a peak of 792 in March 2022 to 630 in December 2022, a decline of 12.1% over the year. This compares with a 9.4% fall nationally. A review of the register impacts numbers, as households that have found alternative accommodation are removed from the register. Anecdotal evidence from social agencies in the city reflects a range of drivers for the fall in numbers, including overcrowding, as vulnerable households opt to move in with other family members to manage cost pressures.

3.3 Price efficiency indicators

Price-to-cost ratios and average construction costs have been favourable for housing development in Palmerston North compared to other cities and the national average. See below for a detailed explanation.

3.3.1 Price-to-cost ratio analysis

To indicate whether land supply constraints exist in the local market, we have used the cost of land relative to construction costs. The price-to-cost ratio[12] looks at the ratio of construction costs to the cost of land in a property's price to indicate whether there is a shortage of land relative to demand, as illustrated in Figure 20 below.

[12] National Policy Statement on Urban Development Capacity - Price efficiency indicators technical report: Price-cost ratios (hud.govt.nz)

If the land cost is a significant portion of a property's price, this could indicate a land shortage relative to demand. The guidance provided by the Ministry for the Environment and Ministry for Business, Innovation and Employment suggests that if the cost-price ratio is between 1 (where price is the same as costs) and 1.5 (where land is one-third of house price), then land supply is responsive to demand. If the price-cost ratio is 2, land costs will be the same as construction costs.

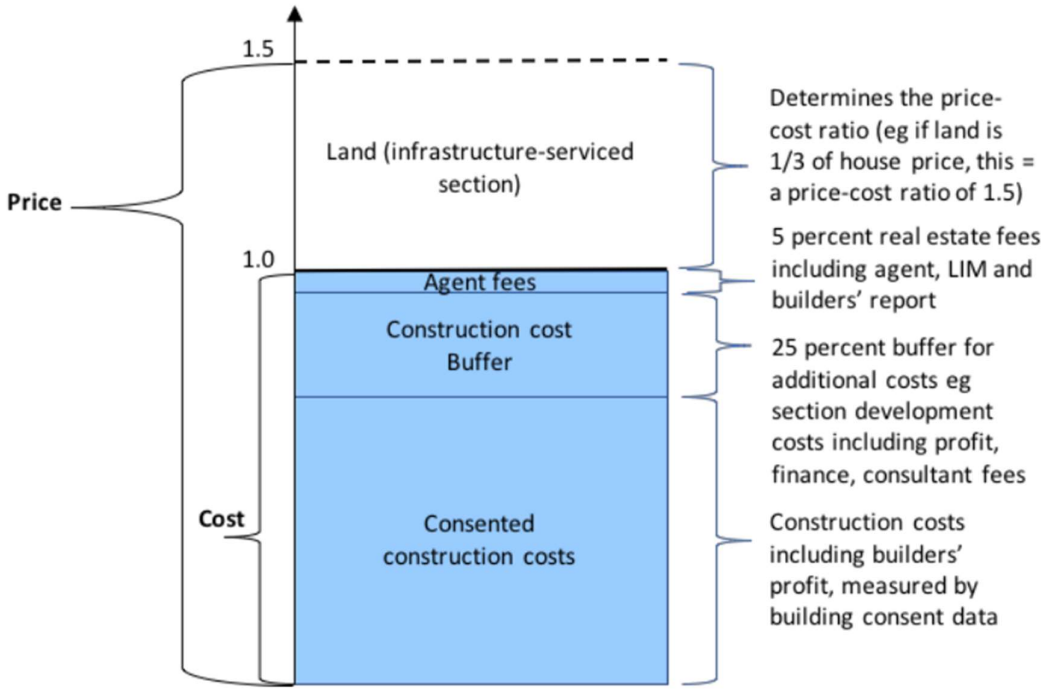


Figure 20 The components of price-cost ratio[1]

The Ministry of Housing and Urban Development monitors the price-to-cost ratio nationwide[13]. The price-to-cost ratio for Palmerston North peaked at 1.6 in 2021 and declined to 1.1 in 2023. The peak in 2021 is similar to that of other cities. Palmerston North has remained below the favourable 1.5 price-cost ratio over 30 years except for the 2021 peak.

We have remained relatively affordable to construct and similar to comparable cities such as Dunedin and Hamilton. The rise and fall of the price-to-cost ratio in most cities resulted from a limited land supply and the surge in demand for land for housing from 2020 until the end of 2022 due to low mortgage rates.

[13] Urban Development (shinyapps.io)

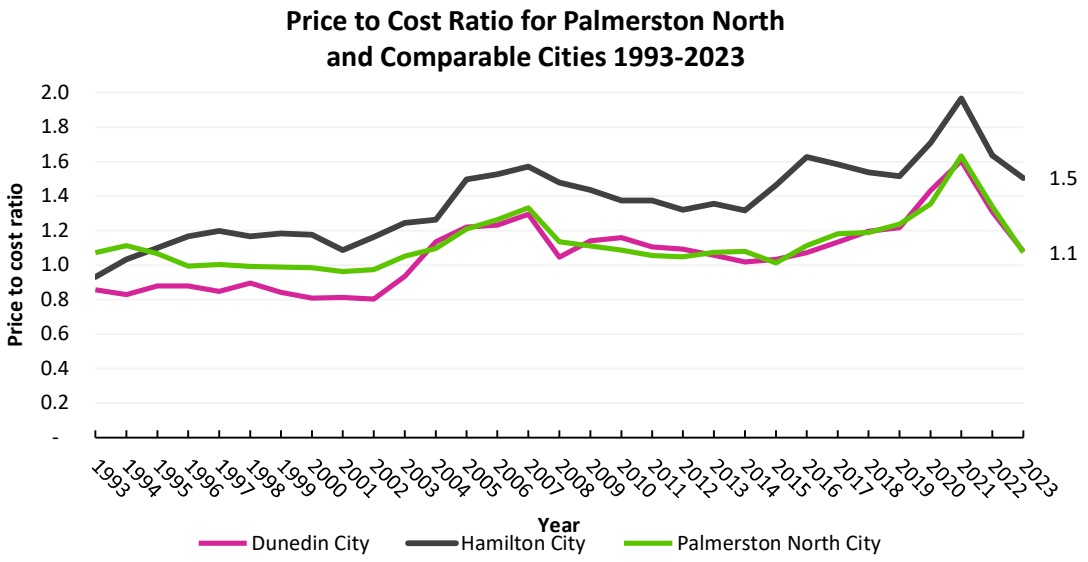


Figure 21 Price-Cost Ratio for Palmerston North and Comparable Cities 1993-2023

3.3.2 The estimated cost of construction

The average estimated construction cost for new dwellings (excluding apartments, townhouses, and retirement village units) consented in Palmerston North in 2022 was $2,762 per m^2. This annual increase in construction costs is 17.4% over the year. The average for New Zealand was $2,789 per m^2, an increase of 14.7%. Palmerston North remains similar in average construction costs for dwellings to other cities, as shown in Figure 22 below.

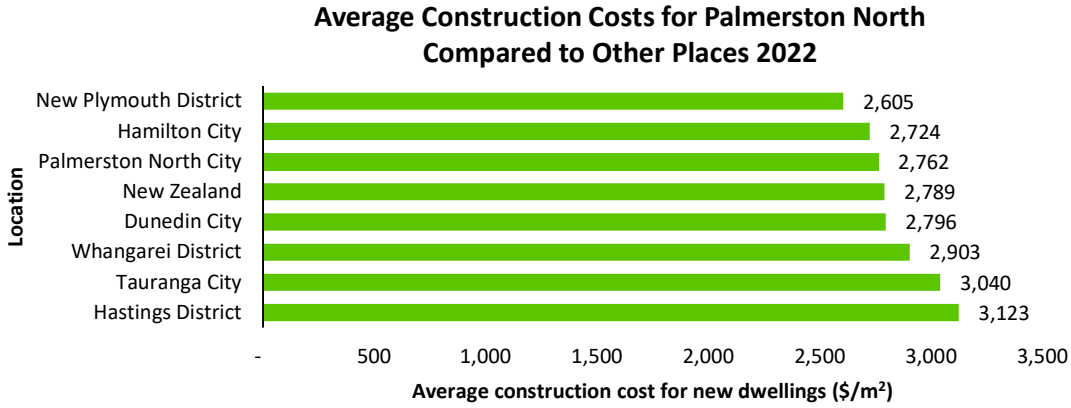


Figure 22 Average Construction Costs for Palmerston North Compared to Other Places 2022

Historically, Palmerston North has experienced lower average construction costs compared to the New Zealand average since 2010. However, this gap has been narrowing over recent years, as shown in Figure 23 below. This chart also highlights that the cost of developing alternatives to our typical housing stock and retirement villages had increased considerably closer to the pandemic but has since levelled back out to either similar or cheaper than national averages.

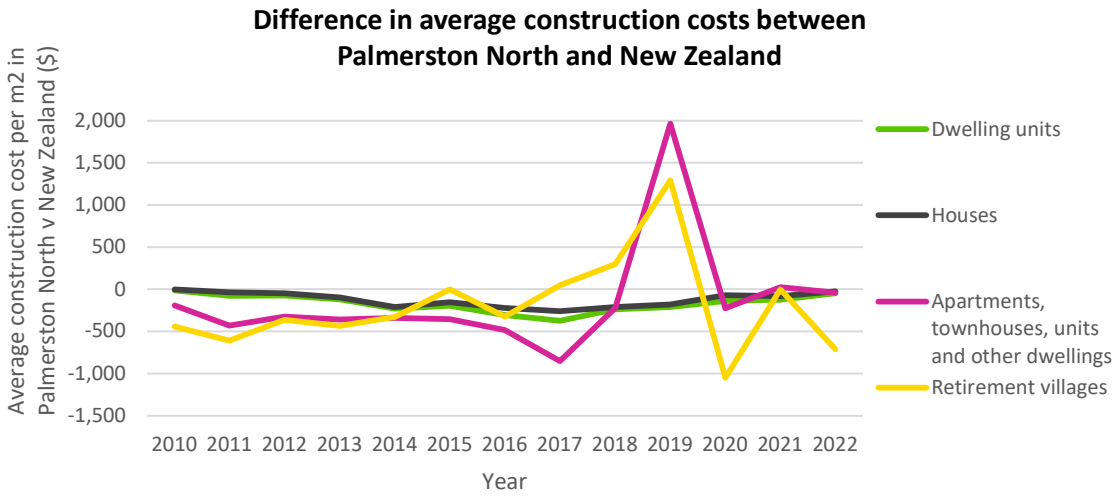


Figure 23 Difference in Average Construction Costs Between Palmerston North and New Zealand[14]

Increasing costs in both materials and labour in the construction sector have been a feature of the post-pandemic New Zealand economy, as shown when we compare the average construction costs for Palmerston North against other places (Figure 24 below). With the recovery of supply chains and falling construction investment, cost pressures in the construction sector are expected to ease from 2023.

[14] Source: Stats NZ 2023

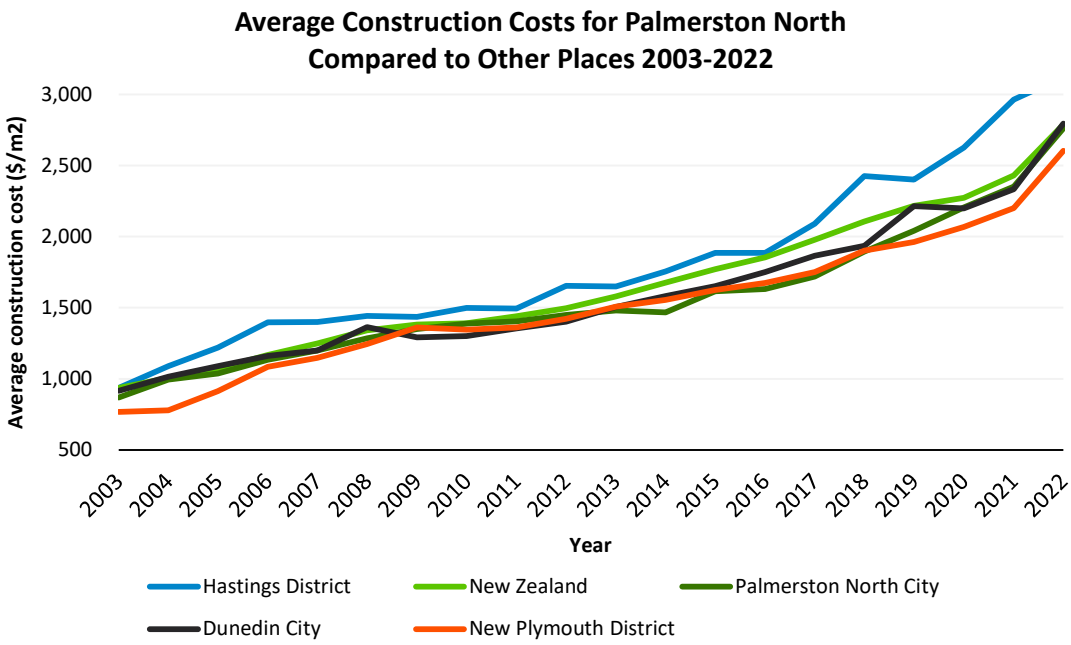


Figure 24 Average Construction Costs for Palmerston North Compared to Other Places 2003-2022

3.4 Housing need by Māori and different groups in our community

The Policy Statement requires us to assess how well the current and likely future demands for housing by Māori and different groups in our community are met. These groups within the Palmerston North community have specific needs, such as multigenerational living or smaller homes for ageing or single people.

We have spoken about the issues and aspirations Maori and different groups in our community have raised in our Engagement Section.

Along with a growing Māori and Pasifika population, there will be an increase in large families and multi-generational living, creating demand for larger homes or co-living arrangements. The City's existing supply has more 5+ bedroom homes than 1-2 bedrooms. We can expect that these existing homes can support larger families. However, there is still a cost barrier to access these homes due to high rents or house prices. The 2023 Census data will provide further detail on the proportion of larger households by ethnicity to determine the extent of housing need and unaffordability by ethnicity once this becomes available. We know from the 2018 Census that 16% of Māori in the City live in crowded housing conditions[15], and 29% of Māori in the City are homeowners.

Single-person households comprise 23% of the total population and are expected to increase by 19.1% (+1,551) over the next 30 years. However, one-bedroom homes only comprise 5.2% of the existing housing stock (based on the 2018 census). Other single households struggle to find affordable one and two-bedroom homes that meet their housing needs. This is reflected

[15] Where generally the number of people per bedroom should not exceed two people.

in building consent data, showing that social housing providers mainly build one and two-bedroom homes – perhaps to meet this demand for affordable smaller homes.

Based on household make-up, one-person households make up 23% of the total household projections, and couples without children make up 40% of total family households. Couples without children are also projected to increase by 23.8% (+2,425) over the next 30 years, indicating demand over the past and need for 1-2 bedroom homes in the city will remain. This is also reflected in the social housing register, with 80% of those in need requesting a one or two-bedroom home. However, Palmerston North's current development model consists of larger homes with 3-4 bedrooms.

The Ministry of Social Development's Housing Register includes those eligible for public housing and need to be matched to a suitable property. There are two categories that people are placed in:

- Priority A: Persistent housing needs to be addressed immediately.
- Priority B: Significant persistent housing need.

Figure 25 shows a trending increase in those on the public housing register in Palmerston North over the past five years.

In the last nine months, this number has started to decline. As of December 2022, there were 630 people on the public housing register for Palmerston North (618 Priority A and 15 Priority B), down by 54 since December 2020. As mentioned, some drivers of this fall include overcrowding through households moving in with other family members to manage cost pressures. The Ministry of Social Development has also audited the public housing register, removing those who have found alternative accommodation or appear on the register in more than one area. This has decreased the number of households on the register without necessarily representing improved housing access and affordability.

80% of those on the Ministry of Social Development's Housing Register require a one to two-bedroom home, compared with only 4% requiring a four or larger-bedroom home. Since the 2021 Assessment, the number of people on the register increased briefly in March 2022 but has returned below the September 2020 numbers. A similar peak has been observed nationally[16]. Our public housing waitlist is not included in these figures.

[16] There is a total of 23,127 on the national social housing register as at 31 December 2022

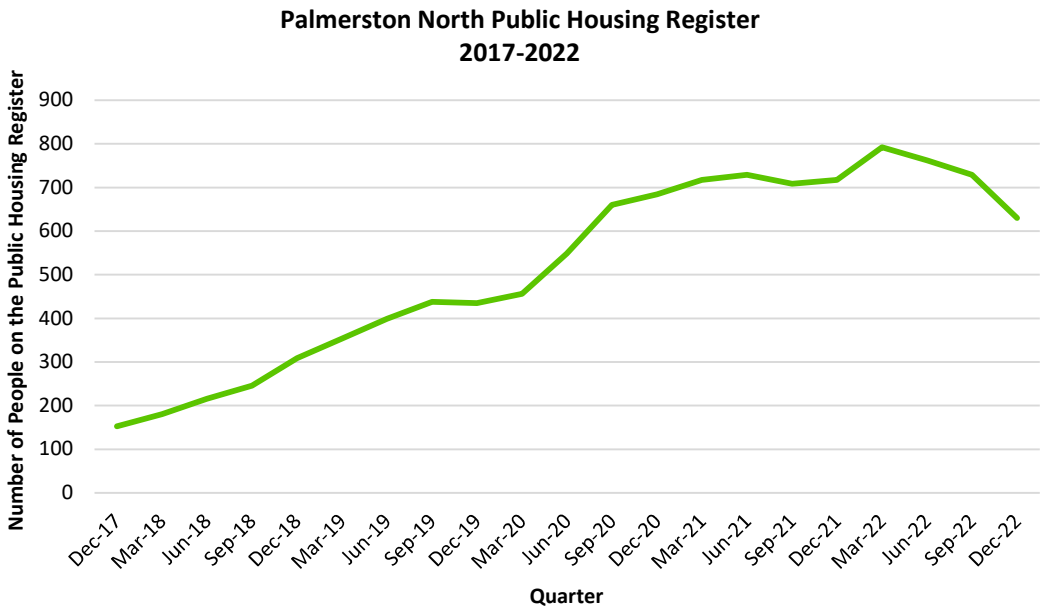


Figure 25 Palmerston North Public Housing Register 2017-2022[17]

Based on the above, smaller homes required by different groups in our community are a challenge to be provided for in our housing market. Larger homes for intergenerational living exist in our district, but these are likely unaffordable.

3.5 Summary – Analysis of the housing market and impacts of planning

House values, house sales and prices, home affordability, and mortgage serviceability indicate that Palmerston North is affordable compared to similarly sized cities and the New Zealand average. Nonetheless, our housing remains unaffordable for most. However, this primarily reflects broader economic conditions in recent years.

Rental homes and affordability, along with public housing demand indicators, show that there is demand for rental homes, and they are affordable compared with other sized cities and the national average. Nonetheless, rental affordability is declining. There is demand for public housing, representing a need for housing for those whose circumstances do not enable them to rent or buy their own home.

Price efficiency indicators show favourable price-to-cost ratios in Palmerston North, and the construction cost is comparable to other-sized cities and below the national average.

Our existing housing stock, construction trends, and affordability will likely affect Maori and other groups in our community who have different housing needs than what is currently being delivered through our existing housing stock and recent residential construction.

[17] Housing Register - Ministry of Social Development (msd.govt.nz)

4. Housing Demand Assessment

Clause 3.24 of the Policy Statement requires us to undertake a housing demand assessment. We must estimate the demand for additional housing in Palmerston North in different locations and dwelling types for the short, medium, and long term. We have identified the types of dwellings as standalone and attached and identified locations as greenfield, infill and rural/rural-residential.

We considered a range of projections for our demand assessments and have described this in the following section. Following this, we analyse our observed housing demand as part of estimating our housing demand for the future. Finally, the demand assessment for homes, locations and types is estimated.

4.1 Our range of projections

Under Clause 3.24 (5) of the Policy Statement, we must set out a range of projections for our housing demand assessment and identify the most likely projections. We must set out the assumptions underpinning each of the projections. If any of them involve a high level of uncertainty, we must describe the nature and potential effects of the uncertainty.

As part of our 2024 Long Term Plan preparations, we produced a Hybrid Model, which adjusts the Infometrics 2018-2054 model built for us in 2018. Our Population section describes the modelled population and households under our Hybrid Model. This model is considered the most likely as the Infometrics model has assumptions considered overly conservative and inconsistent with what happened between 2018 and 2023.

The assumptions for the Hybrid Model are:

- High net international migration during the 2022, 2023 and 2024 years
- Net international migration will ease to a long term trend from 2025 onwards due to global competition for limited labour supplies
- Increasing internal migration to the regions due to the ability to work remotely and lifestyle opportunities, including relative housing affordability
- Elevated demand for labour due to large-scale investments, including:
    - Te Utanganui
    - New Zealand Defence Force consolidation
    - Kāinga Ora developments
    - Roading infrastructure projects

    - Energy infrastructure projects
    - Expansion of services at Te Whatu Ora Midcentral
- Natural increase will ease but will stay positive over the 30-year planning horizon due to the younger population
- A growing proportion of Māori and Pasifika families will drive demand for larger homes to provide for multigenerational families alongside the need for small dwellings suitable for the ageing population.

We used low, base, and high population and household growth scenarios in our Hybrid Model to produce a range of dwelling demand assessments. We believe the base scenario is the most likely population and household projection because it follows the trajectory of population and household growth trends we have observed. Plus, it accounts for the factors we believe will drive population and household growth.

We did not consider a range of demand projections for dwelling location and type as we have used trends in our historic building consent data and what we know about when different residential locations will become available to the market to make these demand estimates.

4.2 Observed housing demand and analysis

4.2.1 Demand trends

There has been a decrease in annual residential buildings consented over the past five years, from a net increase of 350 dwellings in 2018 to a net increase of 232 dwellings in 2022. Infill dwellings have been the most common housing typology consented since 2020. The most common type of housing in Palmerston North is detached single-storey housing consisting of 3-4 bedrooms. Assessing past building consents by type and location helps us to project likely future demand for dwellings across the District. Table 14 below shows the demand for greenfield, infill and rural/rural-residential housing from 2020 to 2022 and an average across this period.

Table 14 Summary of demand from January 2020 to December 2022

	2020	2021	2022	Average
Greenfield	29%	35%	29%	**31%**
Infill	61%	49%	53%	**54%**
Rural/Rural-residential	10%	16%	18%	**15%**

The table below outlines the number, type and location of housing built between 2021 and 2022.

Table 15 Housing Types Provided in Palmerston North 2021-2022

	2021		2022	
	Number of dwellings	**Proportion of total dwellings for the year**	**Number of dwellings**	**Proportion of total dwellings for the year**
Greenfield	130	35%	67	29%
Rural	60	16%	43	19%
Infill	145	39%	76	33%
Multi-unit (infill)	25	7%	36	16%
Minor dwelling (infill)	10	3%	10	4%
Total	**370**		**232**	

The following figures show where these new dwellings are being built in 2021 and 2022. Clustering has typically occurred in Aokautere, Whakarongo and around the Hokowhitu Lagoon, where active larger-scale developers exist.

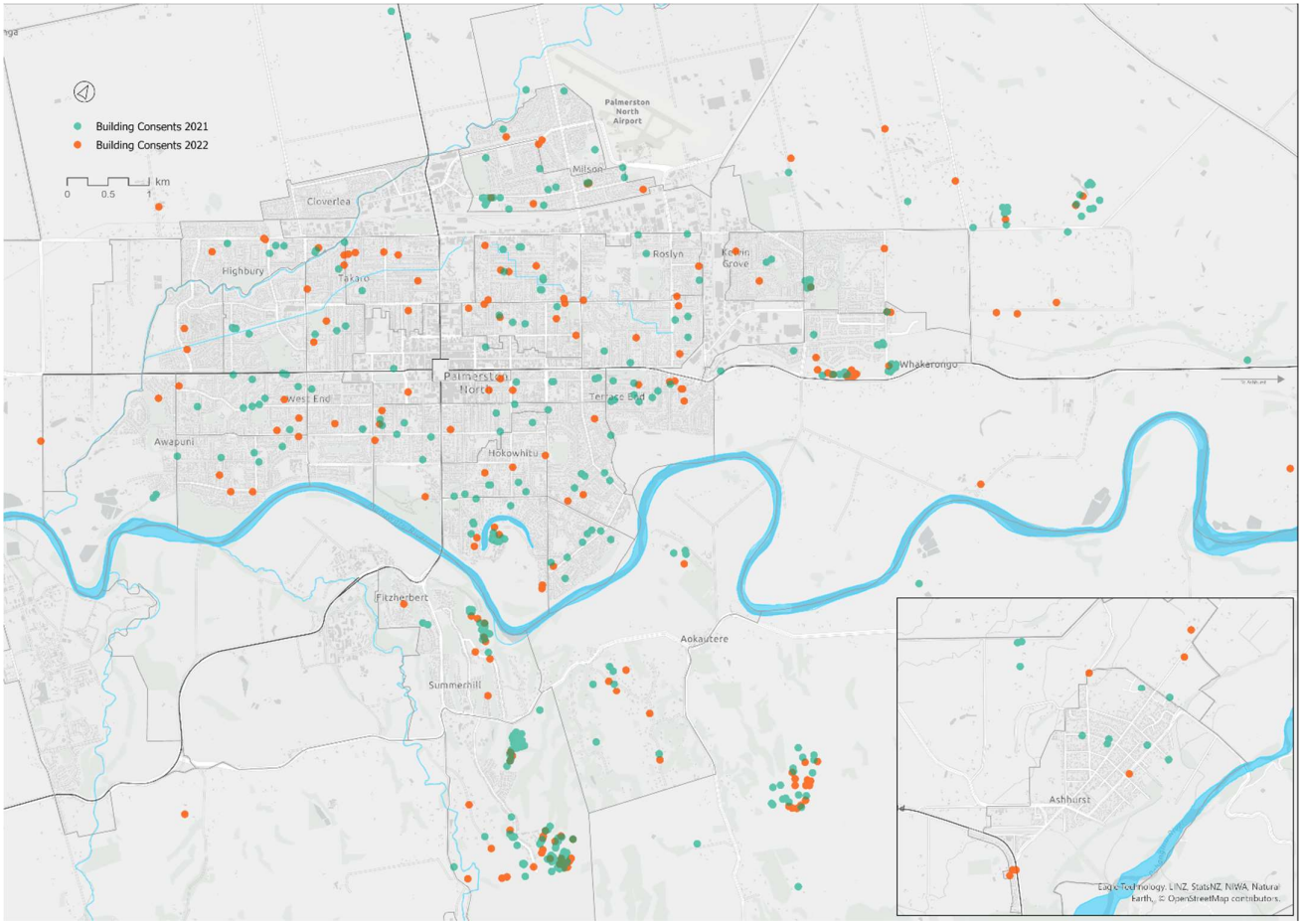


Figure 26 Building consents by location 2021 – 2022

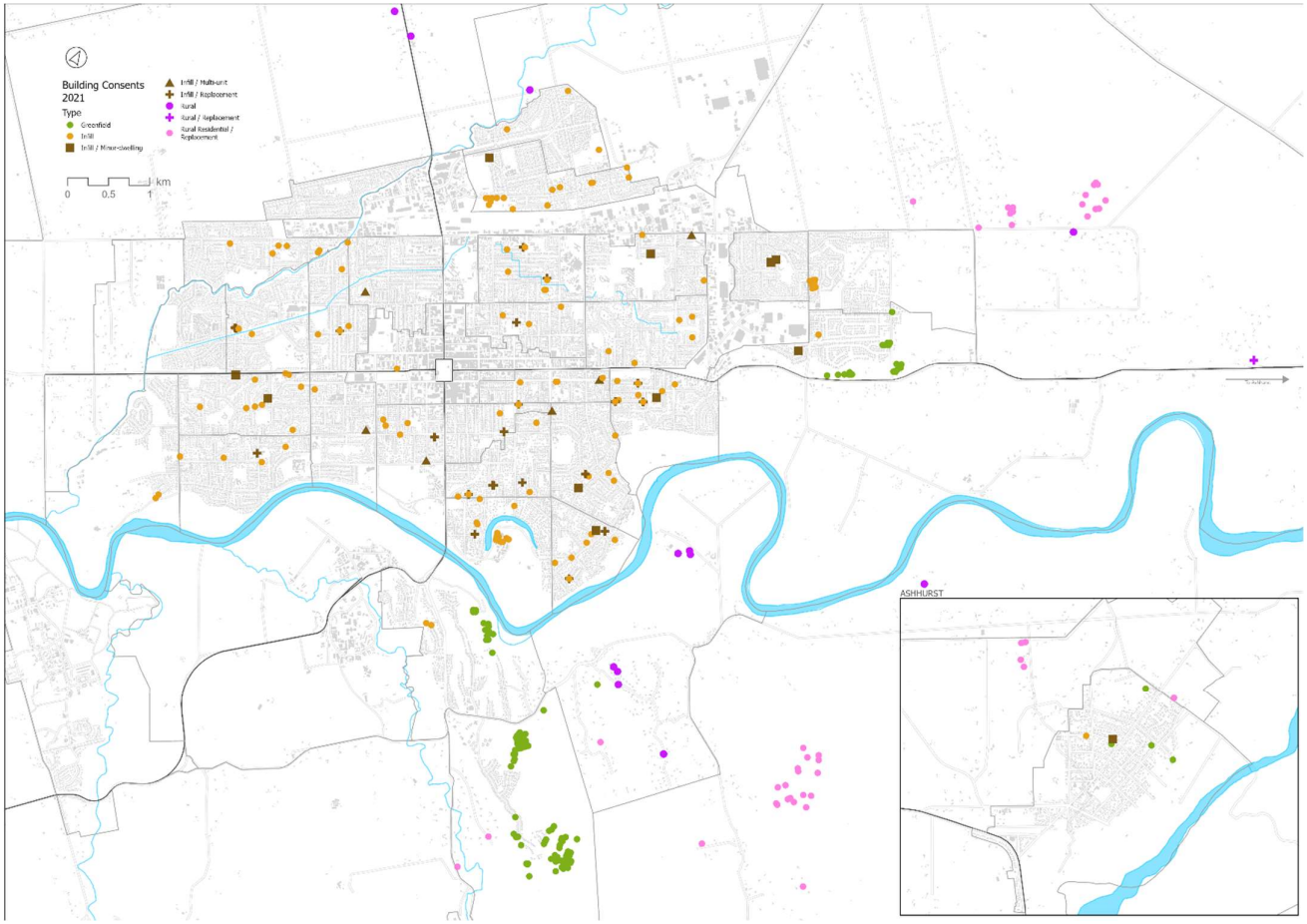


Figure 27 Buildings consents by type and location 2021

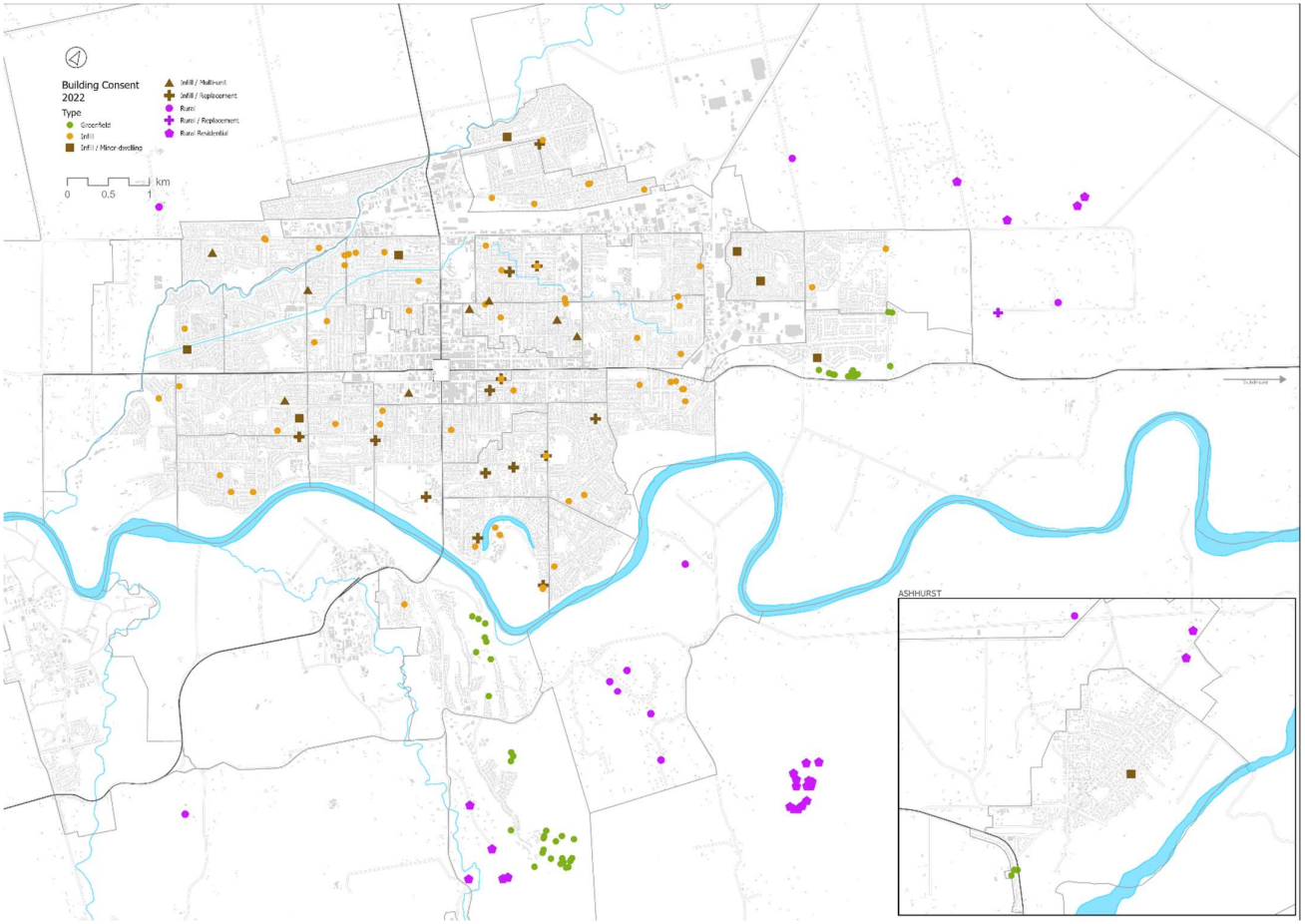


Figure 28 Demand by location and type 2022

4.2.2 Infill housing demand

The infill housing category includes multi-unit development, retirement villages, apartments, minor dwellings, and stand-alone houses on properties that have been subdivided. The proportion of new infill dwelling supply has remained steady over the past years, comprising approximately a third of all new dwellings.

Given a lack of greenfield options in the short term, we expect infill housing demand to continue to be 50% of housing provision. Resource consent data and feedback from the development sector indicate that smaller (less than 350m^2) subdivision opportunities are being actively considered and applied for.

4.2.3 Multi-unit development demand

Multi-unit housing is a development consisting of 3 or more dwellings on one site that are higher density than conventional housing developments. Multi-unit developments have increased significantly since multi-unit housing was enabled in the District Plan in 2018 but have recently dropped by more than half in the last two years combined. Significant multi-unit developments tend to be done by retirement and community housing providers such as Metlifecare and Kāinga Ora. Private, smaller-scale multi-unit developments are less common but have occurred in the city. Recent multi-unit retirement development includes the expansion of the Metlifecare Retirement Village on Carroll Street with 22 new units.

Kāinga Ora has been developing multi-unit housing in Palmerston North[18]. Their general approach is to replace one dwelling with at least three new dwellings. Kāinga Ora plans to develop 300 homes in Palmerston North. Of those, we expect most to be multi-unit housing and attached rather than standalone. The Council has taken a similar approach as a social housing provider, recently beginning development on Stage 3 of Papaioea Place, which provides one-bedroom multi-unit pensioner housing. Stage 3 brings the development's total to 85 new units, replacing the 44 pre-existing units.

Table 16 Multi-unit dwellings consented between Jan 2018 and December 2022

	2018	2019	2020	2021	2022
Multi-unit dwellings	56	100	137	25	36
Percentage of new dwellings	14%	25%	39%	7%	15%

Multi-unit housing is where we see attached housing being delivered the most. Through the resource consenting process, we observe that 80% of multi-unit developments are attached dwellings versus standalone.

4.2.4 Minor dwelling demand

Minor dwellings are defined as any self-contained unit with a floor area no larger than 80m^2 on the same site. These are separate from sleepouts, which are not counted as dwellings as

[18] Palmerston North | Social Pinpoint (kaingaora.govt.nz)

they are not typically self-contained. They represent an affordable housing option to meet demand. Uptake on minor dwellings was slow in the first two years following a District Plan change to enable minor dwellings as a permitted activity in 2018. In 2021 and 2022, they only make up closer to 3% of new dwellings consented (see Table 17).

Table 17 Minor-dwellings consented between Jan 2018 and December 2022

	2018	2019	2020	2021	2022
Minor dwellings	3	2	8	10	10
Percentage of new dwellings (excluding relocatable and dependent dwellings)	0.8%	0.5%	2%	2.5%	3.6%

4.2.5 Greenfield housing demand

Greenfield development contributes to the expansion of the residential urban boundary. This predominantly occurs in Kelvin Grove, Aokautere, Ashhurst, Turitea and Whakarongo, where land has been rezoned from rural to residential.

New greenfield development remained steady between 2017 and 2021, ranging between 120 and 135 new greenfield dwellings. In 2022, new greenfield development dropped by nearly half to 67 new dwellings. This drop in greenfield development is consistent with the available greenfield supply becoming fully developed before future greenfield land is released.

We are preparing District Plan changes to rezone further greenfield areas at Aokautere and Kākātangiata. In recent times, Mātangi was rezoned through a private plan change.

4.2.6 Rural-residential demand

Rural areas can be identified by being zoned as rural and may be within the rural-residential overlay in the District Plan. New dwellings built in the Rural Zone increased in 2021 and remained relatively high in 2022. Historically, development rates have fluctuated in the Rural Zone. This is due to strong rural-residential growth in the nearby Manawatū District and a lack of large-scale rural-residential areas for ready market uptake.

Rural-residential areas have been limited to Kingsdale Park Drive, Hartwell Drive and the recent opening of the Valley Views extension area. While there is capacity for significant rural-residential development within Palmerston North (2,000ha), the District Plan and the National Policy Statement on Highly Productive Land have largely contained this within the rural-residential areas.

4.2.7 Standalone dwellings and attached dwellings

We used data from multi-unit building and resource consents to determine the projected rate of demand for standalone and attached dwellings over the next 30 years. This is because multi-unit housing types are most associated with attached typologies. Over the past five

years, multi-unit development typologies have averaged 16% of all new dwellings. An estimated 80% of multi-unit developments are attached or a part of a development consisting of several duplexes. Based on the multi-unit resource consent data, 12% of new homes were attached, while 88% were standalone housing in the past five years. We expect this number to increase as the development sector becomes more experienced in building attached housing, and our projected increase in smaller households occurs over time. Our average growth rate for multi-unit housing has been 19% in the past five years.

4.2.8 House size demand

Over the past two years, 3-4 bedroom houses comprised the majority (77%) of new residential builds. This is broadly consistent with most of the City's total housing stock consisting of 3-4 bedrooms (68.8%). However, there has been a growth in 1-2 bedroom houses since 2021 (as shown in Figure 29 below).

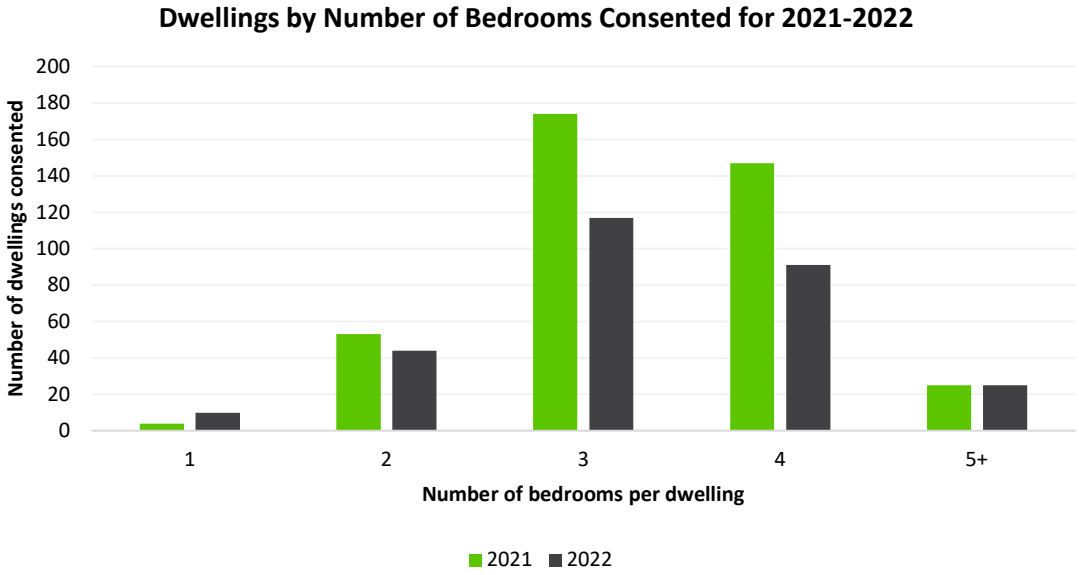


Figure 29 Bedroom Number Breakdown Per Dwellings – 2021 and 2022[19]

The building consents issued in 2021 and 2022 showed that greenfield development usually consisted of 4-bedroom houses. The average floor area for new residential houses in greenfield areas during this period was 210m^2, compared to new standalone infill builds, which had, on average, a 164m^2 floor area and three bedrooms. Over the past two years, 10% of new multi-unit and minor dwellings had one bedroom compared to the majority of 2-3 bedrooms (81%). Table 18 demonstrates these trends.

[19] The number of dwellings recorded here includes replacement dwellings as these contribute to a change in the composition of bedroom sizes in the housing stock

Table 18 Average Bedroom Number and Floor Area per Housing Type – 2021 and 2022

	2021		2022	
	Average Number of Bedrooms	Average Floor area (m^2)	Average Number of Bedrooms	Average Floor area (m^2)
Greenfield	3.7	212.5	3.8	207.3
Rural	3.8	287.3	3.9	277.4
Infill (standalone)	3.1	165.9	3.2	161.8
Multi-unit (infill)	2.5	115.6	2.4	117.5
Minor dwelling (infill)	2.3	67	2.2	73.8
All	**3.4**	**193.3**	**3.2**	**178.3**

Figure 30 below shows a breakdown of the number of bedrooms by occupied dwellings (private) counted during the 2018 Census year.

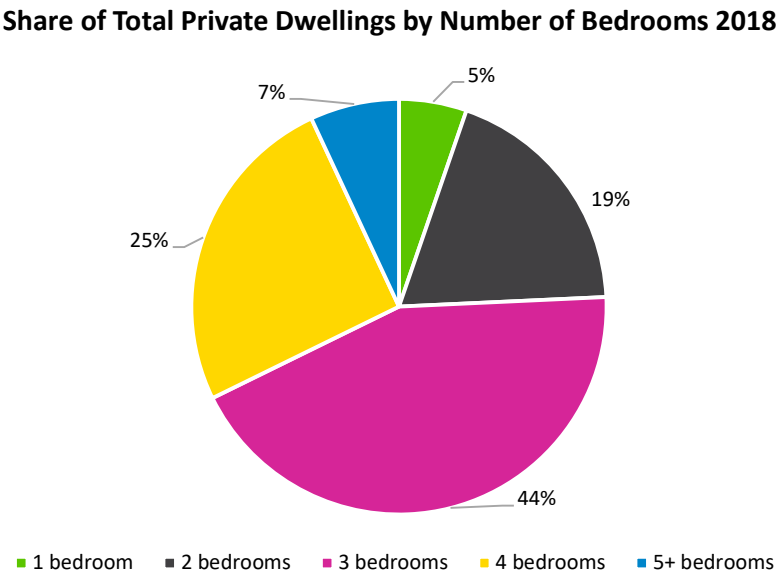


Figure 30 Distribution of Bedrooms by Occupied Private Dwellings[20]

[20] Statistics New Zealand. (2018). Number of bedrooms by occupied dwelling type for occupied private dwellings, 2006, 2013, and 2018 Censuses (RC, TA, SA2, DHB). Retrieved May 2023 from https://nzdotstat.stats.govt.nz/wbos/Index.aspx?_ga=2.40650146.1002118083.1684096738-808760407.1660612098#

4.3 Demand assessment

This section estimates our 30-year housing demand based on our projected population, household projections in the Hybrid Model, and the City's historical housing demand. We have estimated the demand for dwellings by location and type[21] in the short, medium, and long term.

The Policy Statement requires us to apply competitiveness margins to the estimated demand to support choice and competitiveness in the housing market. The required margins are 20% in the short and medium terms and 15% in the long term and have been applied to the demand assessments.

4.3.1 Dwelling demand

To estimate the demand for the number of dwellings over the next 30 years, we have used the number of households projected in the short, medium, and long term periods in the Hybrid Model.

Table 19 Estimated demand for dwellings in the short, medium, and long term

Short term *within the next 3 years*	**Medium term** *between 3 - 10 years*	**Long term** *between 10 – 30 years*	**30 year total**
Projected number of dwellings			
983	3,010	5,891	9,884

4.3.2 Dwelling demand by location

In terms of the locations we estimate demand will be, we estimate demand at the following percentages for greenfield, infill and rural/rural-residential:

Table 20 Estimated demand by location over the short, medium, and long term

	Short term	**Medium term**	**Long term**	**30 year total**
Location	*within the next 3 years*	*between 3 - 10 years*	*between 10 – 30 years*	
Projected demand location				
Greenfield	**40%** 393	**50%** 1,505	**55%** 3,240	5,138

[21] Not including competitive margins

Infill	**55%** 541	**45%** 1,354	**40%** 2,357	4,251
Rural/rural-residential	**5%** 49	**5%** 150	**5%** 295	494
				9,884

These percentages have been estimated based on the following assumptions:

- For greenfield, projected demand in the short term of 40% accounts for infrastructure servicing to be completed in plan-enabled locations such as the Kikiwhenua and Whakarongo Residential Areas. In the medium term, the greenfield projected preference will increase to 50%, and in the long term, it will increase to 55%. Both increases reflect an increased supply of greenfield through rezoning at Ashhurst, Aokautere and Kākātangiata.
- For infill, a projected demand of 55% reflects that greenfield areas will be limited in the short term. The percentage for infill drops to 45% in the medium term and 40% in the long term to reflect that significant greenfield capacity will be enabled through upcoming District Plan changes, such as 7,200 dwellings at Kākātangiata and around 1,000 at Aokautere.
- For Rural/Rural-Residential, projected demand for rural-residential is 5% across all periods to reflect the shrinking supply of rural-residential land across the rural-residential areas and capacity for additional dwellings and dependent dwelling units in the Rural Zone.

4.3.3 Dwelling demand by type

Regarding demand for standalone and attached dwellings, we estimate the demand for standalone and attached dwellings[22] will be:

Table 21 Projected standalone and attached dwelling types over the short, medium, and long term

	Short term *within the next 3 years*	**Medium term** *between 3 - 10 years*	**Long term** *between 10 – 30 years*	**30 year total**
Projected dwelling type demand				
	88%	**86%**	**78%**	8,048

[22] Multi-unit is defined as 3 or more dwellings on a site; therefore, this number does not include two attached dwellings that could be delivered through projected infill dwelling numbers.

Standalone dwellings	865	2,588	4,595	
Attached dwellings	**12%** 118	**14%** 421	**22%** 1,296	1,835
				9,884

The housing type projections have been estimated based on looking back five years in our building and resource consent data. Looking back shows that of the 16% of multi-unit homes built, approximately 80% are attached and based on this, 12% of all new homes built are attached dwellings. This does not account for housing built attached that did not require resource consent for multi-unit housing.

Our percentage growth rate of multi-unit homes built over the past five years is 19%, so we have applied this over the 30 year period to project demand. We have not been able to quantify how many homes built that did not require a multi-unit resource consent were attached. Our demand estimate for attached dwellings is, therefore, considered conservative, particularly in the context of projected increases in household types that need smaller homes, which attached housing will likely cater for.

4.4 Summary – housing demand assessment

In summary, we need 9,884 homes over the next 30 years, with 983 in the short term, 3,010 in the medium term, and 5,891 in the long term. This is less than the 2021 assessment. However, the average household size has increased from 2.1 to 2.6 persons, which has resulted in a reduced number of homes.

We estimate this demand will be spread over greenfield, infill and rural/rural-residential locations and that over the next 30 years, we will need:

- 5,138 greenfield dwellings
- 4,251 infill dwellings
- 494 rural/rural-residential dwellings

In terms of housing type – standalone versus attached dwellings – we estimate that over the next 30 years, we will need:

- 8,048 standalone dwellings
- 1,835 attached dwellings

We consider our estimate for attached dwellings to be overly conservative and expect increased demand for attached over time as household types that attached housing would cater to increase.

We have estimated this demand based on our Hybrid Model, historic building and resource consent trends, and what we know about our residential areas throughout the city.

5. Housing Development Capacity Assessment

Clause 3.25 of the Policy Statement requires us to undertake a housing development capacity assessment. It must state in the short, medium, and long terms, the housing development capacity in the region and Palmerston North City that is:

- Plan-enabled[23]
- Plan-enabled and infrastructure-ready[23]
- Plan-enabled, infrastructure-ready, and feasible and reasonably expected to be realised[24]

This section contains this assessment and analysis.

5.1 Infill development capacity

Within Palmerston North,[25] there is capacity for an additional 12,789 dwellings:

- 1,196 dwellings based on existing lots being subdivided to the District Plan's 350m^2 minimum lot size without the need for existing buildings to be removed. This estimate is based on a spatial analysis where we identified properties within the Residential Zone that comply with controlled performance standards in the District Plan for subdivision.
- 11,593 dwellings based on residential lots over 700m^2 or more – i.e. sections that could be subdivided as a controlled activity and would need the existing house and structures removed to accommodate more homes.

As the current housing stock ages, we expect replacement stock to be at a higher density through the 350m^2 minimum lot size in the District Plan or multi-unit development. Private developers and Kāinga Ora are increasingly taking up increased density, often leading to one dwelling being replaced with three. Even greater yields are being achieved through site agglomeration and multi-unit development. Significant opportunity exists with the potential capacity available in the multi-unit housing areas and the proposed Medium Density Residential Zone.

[23] See clause 3.4 of the Policy Statement for the meaning of plan-enabled and infrastructure-ready

[24] See clause 3.26 of the Policy Statement for our requirements when defining what is reasonably expected to be realised and our Methodology, Inputs and Assumptions section for our methods and justification

[25] Excluding Ashhurst and Bunnythorpe Villages

The Hokowhitu Lagoon Residential Area was rezoned in 2017 to provide 136 dwellings, 26 of which have been delivered. Stage 1 is currently in construction, and stage 2 has been consented with the majority of lots sold. Stage 3 is expected to be developed in the medium term for 52 dwellings.

We expect 25 dwellings to be delivered off Fairs Road (Milson) and 30 in Kingsgate Grove (Cloverlea).

We are currently preparing plan changes to rezone parts of the existing urban area:

- The Roxburgh Crescent Residential Area[26] will propose to replace a pocket of industrial-zoned land in Hokowhitu with approximately 105 dwellings in the Residential Zone. The plan change is expected to be notified in early 2024.
- The Medium Density Residential Area[27] is reviewing our existing multi-unit housing areas and parts of the City that meet our definition of a walkable neighbourhood. This new zone would replace parts of the residential zone and provide greater housing choices through increased density. The initial extent has suggested the zone could extend across 12,305 existing lots but is subject to an assessment of stormwater constraints. Because of the current uncertainty around those constraints, we have not added the potential capacity that could be available in this zone to our assessment.

5.2 Greenfield development capacity

Previous residential plan changes have provided plan-enabled development capacity in the short term:

- The Whakarongo Residential Area was rezoned to provide 550 dwellings east of the City. We expect these to consist of 500-550m^2 lots delivered in the short and medium term. Twenty-six lots have sold or are on hold in the 114-lot Tamakuku Terrace section of this residential area, with a further 21 lots already developed privately.
- The Napier Road Residential Area (Freedom Drive) was rezoned to provide 100 dwellings. Fifty lots have been subdivided, with approximately 50 more to be provided in the short term.
- The Napier Road Residential Extension Area was rezoned to provide 50 dwellings in the short to medium term.
- The Kikiwhenua Residential Area was rezoned in 2021 to provide 280 dwellings in the short term. The average residential lot size will be between 500m^2 and 550m^2. Before development can occur, roading and three waters infrastructure upgrades for Kikiwhenua are required. These have been programmed for in the 2021-2031 Long Term Plan, with the option of a developer agreement to deliver infrastructure faster.

[26] https://www.pncc.govt.nz/roxburgh

[27] https://www.pncc.govt.nz/Participate-Palmy/Have-your-say/Proposed-Plan-Change-I

- The Mātangi Residential Area (formerly known as Whiskey Creek) was a private plan change that rezoned 13 hectares of Rural Zone land to residential and 10 hectares to Recreation Zone in 2023. The area will provide capacity for an additional 160 dwellings. The structure plan provides for different housing types with conventional lots between 450m^2 and 550m^2 and a multi-unit housing area overlay along the reserve edge.

Our proposed plan change G: Aokautere Urban Growth will provide for 300 dwellings in the medium term and 700 in the long term:

- The Aokautere Residential Area proposes 1,000 dwellings in the south of the City. Plan Change G has been notified and is currently being considered. Transport and stormwater upgrades are required before any development begins, and these are not anticipated to occur until 2026. This development is expected to become infrastructure-ready in the medium term. However, there is a small number of available lots for development in the existing Aokautere area.

Plan changes are currently being prepared to rezone additional land to increase housing supply over the medium and long terms:

- The Kākātangiata Urban Growth Area (formerly City West) was identified as a future growth area in 2009. We expect 842 hectares to be rezoned for 7,200 dwellings in the medium and long term, supported by multifunctional stormwater/ecological/recreation corridors and four local business areas. We expect to plan for a mix of standard-sized lots, medium-density dwellings, and mixed-used housing in commercial areas. We expect to notify this plan change formally in late 2024.
- The Ashurst Growth Areas are four areas of greenfield growth identified in 2017 to provide capacity for 400 dwellings in the medium term. We expect to plan these as standard dwellings. This plan change is currently subject to an assessment of flood and stormwater constraints.

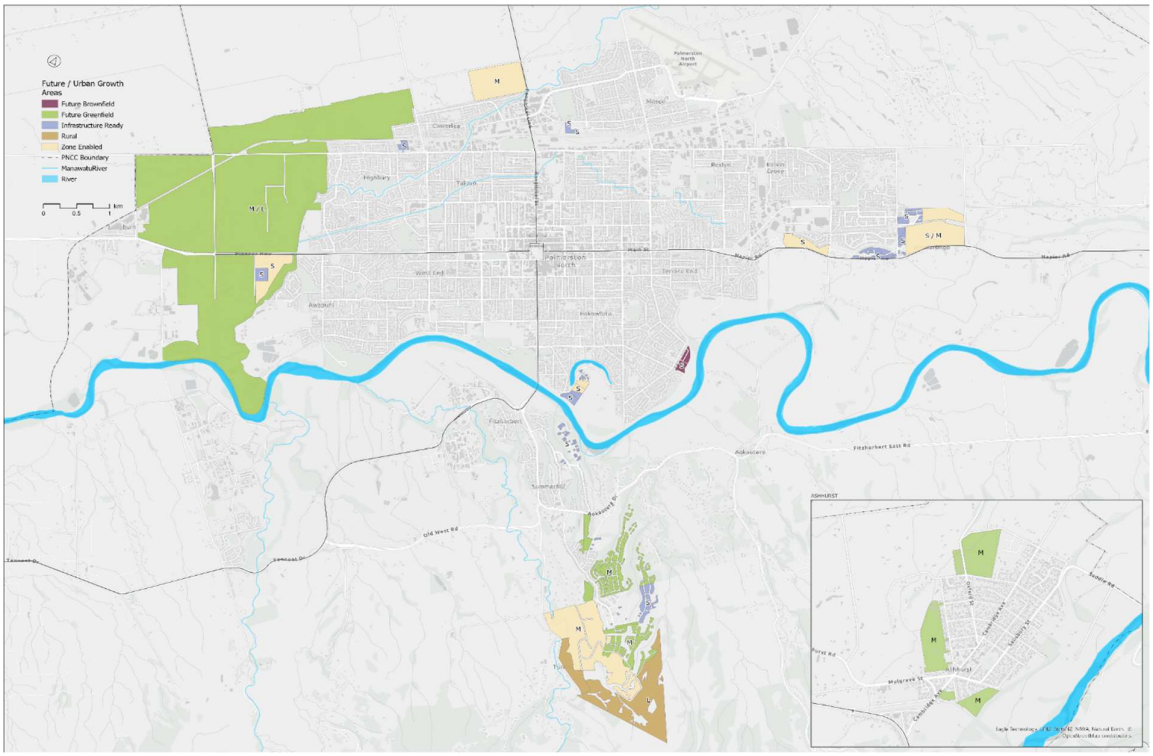


Figure 31 Plan-enabled, infrastructure-ready residential areas and future growth areas, status, and timing

5.3 Rural and rural-residential development capacity

An estimated 1,964 dwellings could be accommodated in the Rural-Residential Overlay areas (see Figure 32 for areas). The rural-residential development capacity was estimated based on dividing the total area of the rural residential overlay area by 1 hectare (the minimum lot size in the overlay area). All properties with building consents recently issued or houses on them as of 31st December 2022 were subtracted from this figure. Our rural-residential overlay is mainly comprised of class 3 soils.

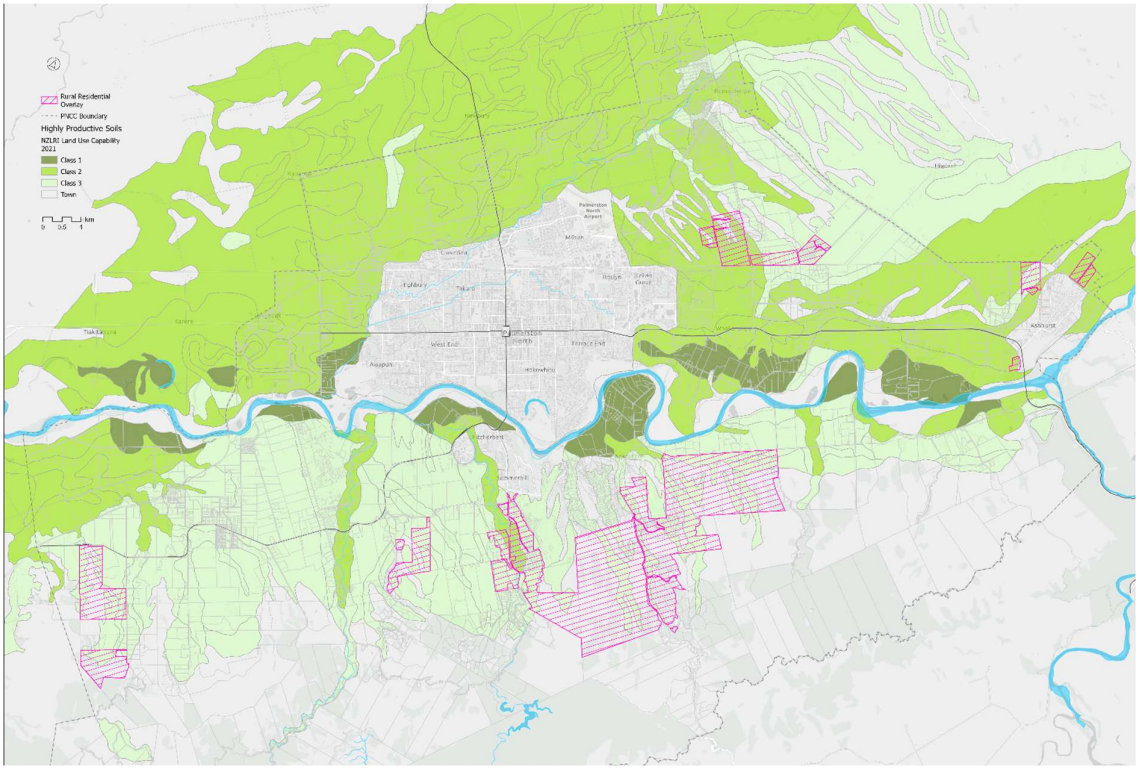


Figure 32 Soil class 1 – 3 and District Plan Rural Residential Overlay

5.4 Development capacity assessment

To assess if we have sufficient housing land to meet future demand, we need to identify land supply for housing in the short, medium, and long terms, that is:

- Plan-enabled
- Infrastructure-ready
- Feasible and reasonably expected to be realised

5.4.1 Plan-enabled capacity

We have assessed the current Residential Zone capacity within the district and planned residential growth areas and have determined that:

- In the short term, we have 15,939 dwellings that are plan-enabled
- In the medium term, 1,000 dwellings that are plan-enabled
- In the long term, 7,705 dwellings that are plan-enabled.

See below for our plan-enabled development capacity in the short, medium and long term.

Table 22 Short, medium, and long term plan-enabled housing

	Housing location	Dwellings	Short term plan-enabled *The land is zoned for housing in the operative District Plan*	Medium term plan-enabled *The land is zoned for housing in a proposed District Plan change*	Long term plan-enabled *The land is identified in a Future Development Strategy*
Infill	Residential Zone	12,789			
	Milson	25			
	Hokowhitu Lagoon Residential Area	110			
	Kingsgate Grove	30			
	Roxburgh Crescent (Draft)	105		Notify early-2024	
Greenfield	Kikiwhenua Residential Area	280			
	Whakarongo Residential Area	499			
	Napier Road Residential Area	50			
	Napier Road Residential Extension Area	50			
	Mātangi Residential Area	160			
	Aokautere Residential Area (Proposed)	1,000			
	Ashhurst Growth Areas (Draft)	400		Notify mid-2024	

	Kākātangiata Urban Growth Area (Draft)	7,200		Notify late-2024	
Rural	Rural Residential Overlay	1,964			
	Total	**24,662**	**15,939**	**1,000**	**7,705**

The Aokautere Residential Area is scheduled for a hearing in December of this year. If approved, this would make 1,000 homes short term plan-enabled.

Based on expected notification dates for the Roxburgh Crescent, Ashhurst, and Kākātangiata residential plan changes, we would expect that the 7,705 dwellings that are plan-enabled in the long term, if approved, would become plan-enabled in the medium term.

We have not quantified the plan-enabled capacity of our multi-unit housing areas throughout the city, which would offer further plan-enabled dwellings in the Residential Zone.

5.4.2 Infrastructure-ready capacity

Development infrastructure includes network infrastructure for water supply, wastewater, stormwater, and transport that we control. We have assessed plan-enabled development capacity, the Long Term Plan and have determined that the City has the following infrastructure-ready housing development capacity:

- Short term: 15,021 dwellings.
- Medium term: 936 dwellings.
- Long term: 8,705 dwellings.

Table 23 Infrastructure-ready development capacity in the short, medium, and long term

	Housing Location	Dwellings	Short term Infrastructure-ready *There is adequate existing development infrastructure to support the development of the land.*	Medium term Infrastructure-ready *Meets short term requirement or funding for adequate development infrastructure is in the Long Term Plan*	Long term Infrastructure-ready *Meets medium term requirement or adequate development infrastructure is in the Infrastructure Strategy*
Infill	Residential Zone	12,789	12,789		
	Milson	25	25		
	Hokowhitu Lagoon Residential Area	110	110		
	Kingsgate Grove	30	30		
	Roxburgh Crescent (Draft)	105			105
Greenfield	Kikiwhenua Residential Area	280		280	
	Whakarongo Residential Area	499	53	446	
	Napier Road Residential Area	50	50		
	Napier Road Residential Extension Area	50		50	
	Mātangi Residential Area	160		160	
	Aokautere Residential Area (Proposed)	1,000			1,000
	Ashhurst Growth Areas (Draft)	400			400
	Kākātangiata Urban Growth Area (Draft)	7,200			7,200
Rural	Rural Residential Overlay	1,964	1,964		

Total	**24,662**	**15,021**	**936**	**8,705**

We are currently preparing our draft 2024-34 Long Term Plan. Infrastructure programmes to deliver development infrastructure for the Aokautere Residential Area, Ashhurst Growth Areas, Kākātangiata Urban Growth Area, and Roxburgh Crescent have been drafted. If approved, these areas would be 'infrastructure-ready' in the medium term.

Based on programmes proposed in the 2024-34 Long Term Plan and Infrastructure Strategy, development infrastructure will be delivered as follows:

In the short to medium term for:

- Whakarongo Residential Area: 499 dwellings
- Napier Road Residential Area: 50 dwellings
- Roxburgh Crescent Residential Area: 105 dwellings
- Kikiwhenua Residential Area: 280 dwellings
- Mātangi Residential Area: 160 dwellings

In the medium term for:

- Kākātangiata Urban Growth Area: 1,035 dwellings
- Ashhurst Growth Areas: 400 dwellings
- Aokautere Urban Growth Area: 300 dwellings

In the medium to long term for:

- Kākātangiata Urban Growth Area: 6,165 dwellings
- Aokautere Urban Growth Area: 700 dwellings

5.4.3 Commercially feasible and likely to be realised development capacity

We must estimate the plan-enabled and infrastructure-ready housing land, which is commercially feasible and reasonably expected to be realised.

We have used the methods demonstrated in the figure and described below to determine commercial feasibility.

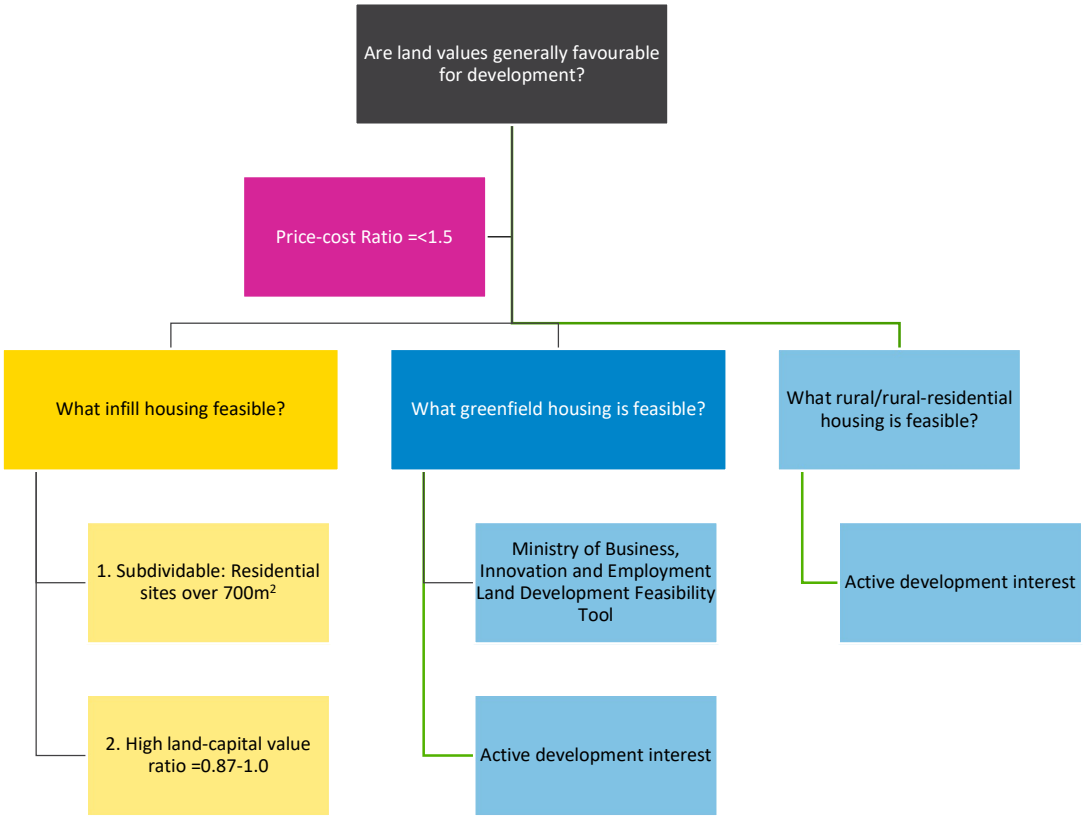


Figure 33 Method for determining commercially feasible housing land

For existing residential areas

- Map what is subdividable as a controlled activity under the District Plan in the Residential Zone: 700m^2 or larger.
- Mapping land-to-capital value ratios and determining how many properties have high redevelopment potential (land value to capital value ratio between 0.87 and 1.0) and potential redevelopment potential (land value to capital value ratio between 0.73-0.87).
- For properties with a desirable land-to-capital value ratio, apply the projected demand percentage for infill over the short, medium, and long term.

We have used the land value to capital value ratio because it can be used to signal whether a property has redevelopment potential. Properties with a higher ratio of land value to capital value (0.87 - 1.0) are likely to be more attractive to redevelop because the opportunity cost of removing existing buildings is low compared to the value of the land.

Newly subdivided land or land with older buildings typically has a high land-capital value ratio; properties with high land values or relatively newer buildings typically have lower land-capital value ratios and are less attractive to redevelop.

We have used rating data from 2021 to derive land values and capital values across the Residential Zone and have mapped high redevelopment potential (land-capital value ratios = 0.87-1.0) and potential redevelopment potential (0.73-0.87).

Based on the land value to capital ratio as of September 2021[28], market incentives for residential redevelopment and intensification existed in over 60% of the city. Based on this, 60% of the plan-enabled dwellings have an optimal land-to-capital value ratio for redevelopment; we have estimated that 7,673 dwellings are commercially feasible.

Since 2021, land values have fallen at a greater rate than capital values, implying a slight weakening in the proportion of commercially feasible properties to redevelop or intensify. While this will be the case under the current market and financial conditions, the expectation is that land values will rise again relative to capital values. This will improve the incentive for redevelopment and intensification in the City. Increased market demand due to migration to the City and easing financial market settings are expected to increase land values and improve the commercial feasibility of redevelopment and intensification as economic conditions improve.

Figure 34 shows land value to capital value ratios throughout the city.

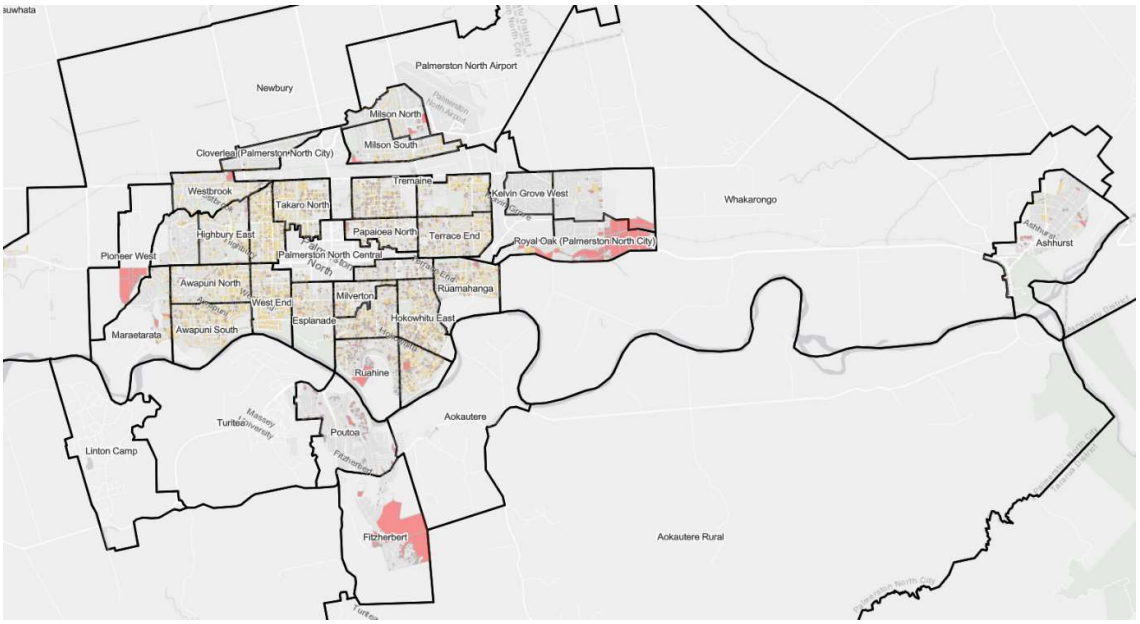


Figure 34 Land value to capital value ratio throughout the city

For plan-enabled greenfield

Our previous housing capacity assessments have applied the Ministry for Business, Innovation, and Employment Land Development Feasibility Tool[29] to test the feasibility of our residential growth areas. All major growth areas were assessed, and showed that these areas were feasible to develop, and most were profit maximising.

[28] Council completed its up to date land valuation in 2021, therefore the extent of this drop is difficult to measure.

[29] https://www.hud.govt.nz/documents/nps-udc-development-feasibility-tool/

At the citywide level, we know that the cost of land reflected in the price of a property has been favourable for development outside of pandemic-affected years.

The high interest from the development community in our planned greenfield growth areas supports this:

- Aokautere has existing development within the existing residentially-zoned part of the proposed Aokautere Urban Growth Area, and developers' submissions support enabling housing in this area.
- The Kākātangiata Urban Growth Area has attracted high interest from developers purchasing land in anticipation of the plan change being notified. A range of property owners are interested in preparing private plan changes to expedite the provision of housing for their parts of the growth area.
- There is active development occurring in the eastern growth areas, with a further private plan change request being prepared by a landowner seeking to take advantage of infrastructure changes in the area[30].
- There is active interest from real estate agents on behalf of developers for the Ashhurst Growth Areas.
- The primary landowners of the Kikiwhenua and proposed Roxburgh Crescent Residential Areas are preparing active plans to realise housing on their land.

For plan-enabled rural-residential areas

Our observed trend in rural residential development is that uptake is high. We expect the tight restrictions on what is feasible in rural land to obtain resource consent will create a scarce housing type for new rural residential dwellings in future years. We assume from this that of what is plan-enabled, rural-residential areas will be commercially attractive to develop.

5.4.4 Reasonably expected to be realised

We have used the methods as demonstrated in the figure and described below to determine what is reasonably expected to be realised.

[30] This private plan change request has not been formally lodged with Council yet so we have not considered it in our development capacity assessment.

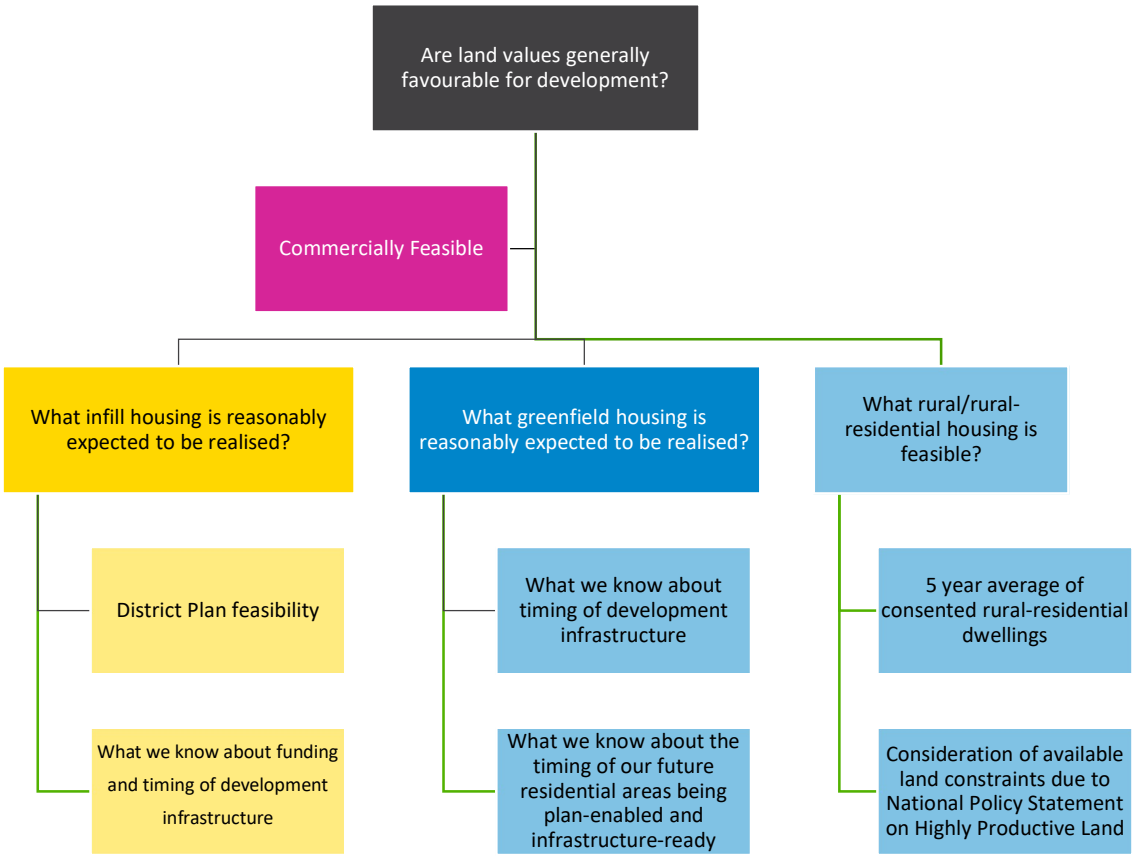


Figure 35 Method for determining housing land that is reasonably expected to be realised

For existing residential areas

In the Residential Zone, we have looked at what has the higher likelihood of redevelopment in the short term. To do so, we have looked at District Plan feasibility by identifying properties in the Residential Zone that are easiest to subdivide. We have looked at properties that:

- Are 700m^2 or over in site area reflective of a minimum lot size of 350m^2.
- Has sufficient 'bare' land that could accommodate a 350m^2 lot or lots without requiring the removal of existing dwellings.
- Has adequate access onsite to accommodate driveways to service subdivided lots.
- Has relatively flat topography suitable for constructing dwellings without significant earthworks.

1,196 dwellings were found to meet the above criteria. To determine what has a likelihood of redevelopment in the medium-long term, we have identified the balance of properties 700m^2 or over in the Residential Zone with favourable land-capital value ratios. These properties are likely to incur higher redevelopment costs for demolition, access, and

earthworks. Therefore, we expect them to have a higher likelihood of developers seeking to maximise yield with multi-unit attached dwellings to offset higher land development costs.

Based on this District Plan feasibility assessment, we estimated that the following development capacity in the existing residential zone is commercially feasible and likely to be realised:

Table 24 Commercially feasible and likely to be realised development capacity in existing Residential Zone

Short term *Within the next 3 years*	**Medium-Long term** *Between 3 and 30 years*
1,196	6,477

For rural-residential areas

Of the estimated 1,964 dwellings that the rural residential areas could yield, we would reasonably expect that recent trends would continue. We have taken the 5-year average of consented dwellings in the Rural Zone (39 dwellings per year) and extended this across the short, medium and long term.

We then looked at the constraints on rural/rural-residential land and dwellings within these areas based on the National Policy Statement on Highly Productive Land to ensure that the 5-year average would not outstrip the land supply available in light of the restrictive approach taken by the policy statement.

What we know about infrastructure servicing and the timing of our future residential growth areas

To further define what is reasonably expected to be realised, we considered what we know about funding and timing of development infrastructure and the timing of our draft residential plan changes and funding for their infrastructure readiness.

We have assumed that any infrastructure requirements for infill development in the existing Residential Zone will be funded through development contributions paid at the subdivision or building consent stage. Thus, it is assumed that the commercially feasible residential zone development capacity is reasonably expected to be realised.

We know that our draft residential plan changes will be plan-enabled and infrastructure-ready sooner than we have indicated in our plan-enabled and infrastructure-ready assessments. We know that based on notification dates and draft programmes included for funding consideration in the 2024 Long Term Plan, some of our housing supply will be realised sooner. Therefore, we have adjusted these areas' timing based on this in our reasonably expected to be realised assessment.

5.4.5 Commercially feasible and reasonably expected to be realised development capacity assessment

Based on our commercially feasible and reasonably expected to be realised tests, we have determined the following:

Table 25 Commercially feasible and reasonably expected to be realised development capacity in the short, medium, and long terms.

	Housing Location	Dwellings	Short term	Medium term	Long term
			Feasible and reasonably expected to be realised	*Feasible and reasonably expected to be realised*	*Feasible and reasonably expected to be realised*
Infill	Residential Zone	12,789	1,196	3,238	3,238
	Milson	25	25		
	Hokowhitu Lagoon Residential Area	110	52		
	Kingsgate Grove	30	30		
	Roxburgh Crescent (Draft)	105	105		
Greenfield	Kikiwhenua Residential Area	280	280		
	Whakarongo Residential Area	499	88	411	
	Napier Road Residential Area	50	50		
	Napier Road Residential Extension Area	50	50		
	Mātangi Residential Area	160	60	100	
	Aokautere Residential Area (Proposed)	1,000		300	700
	Ashhurst Growth Areas (Draft)	400		400	
	Kākātangiata Urban Growth Area (Draft)	7,200		1,035	6,165
Rural	Rural Residential Overlay	1,964	117	273	780
	Total	**24,662**	**2,053**	**5,757**	**10,883**

5.5 Summary - Development capacity assessment

We have assessed our plan-enabled, infrastructure-ready housing in Palmerston North. Of that plan-enabled and infrastructure-ready housing, we have assessed what is commercially feasible and have determined that we have:

- 2,053 homes in the short term
- 5,757 homes in the medium term
- 10,883 homes in the long term

Of those homes, they are in the following locations:

- Infill – 1,408 in the short term, 3,238 in the medium term and 3,238 in the long term
- Greenfield – 528 in the short term, 2,246 in the medium term and 6,865 in the long term

Rural/rural-residential – 117 in the short term, 273 in the medium term and 780 in the long term.

6. Housing Sufficient Development Capacity Assessment

Clause 3.27 of The Policy Statement requires our housing development capacity assessment to identify whether there is sufficient development capacity to meet estimated demand for the short, medium, and long term.

This must be based on comparing the demand for housing (with competitiveness margins added) and the development capacity we identified in the housing development capacity assessment. If we find an insufficiency, we must identify where and when this will occur and analyse the extent to which our planning documents, a lack of development infrastructure, or both cause and contribute to the insufficiency.

In section 4, we assessed our housing demand and estimated that Palmerston North district needs an additional 9,884 homes over the next 30 years with:

- 982 homes required in the short term.
- 3,010 homes in the medium term.
- 5,891 homes in the long term.

We estimated this demand for dwellings would be divided across the following locations and housing types.

Table 26 Estimated demand location and housing type

	Short term *within the next 3 years*	Medium term *between 3 - 10 years*	Long term *between 10 – 30 years*	30 year total
Housing location				
Greenfield	393	1,505	3,240	5,138
Infill	541	1,354	2,357	4,251
Rural/Rural-Residential	49	150	295	494
Housing type				
Standalone dwelling	865	2,588	4,595	8,048
Attached dwelling	118	421	1,296	1,835

In section 5, we assessed our housing development capacity and found we have the following:

- 2,053 homes in the short term
- 5,757 homes in the medium term
- 10,883 homes in the long term

Of those homes, they are in the following locations:

- For infill – 1,408 in the short term, 3,238 in the medium term and 3,238 in the long term
- Greenfield – 528 in the short term, 2,246 in the medium term and 6,865 in the long term
- Rural/rural-residential – 117 in the short term, 273 in the medium term and 780 in the long term.

Based on comparing our demand and housing development capacity (as shown in Figure 36 below) over the short, medium and long term, we found that we have sufficient housing development capacity to meet demand across all periods.

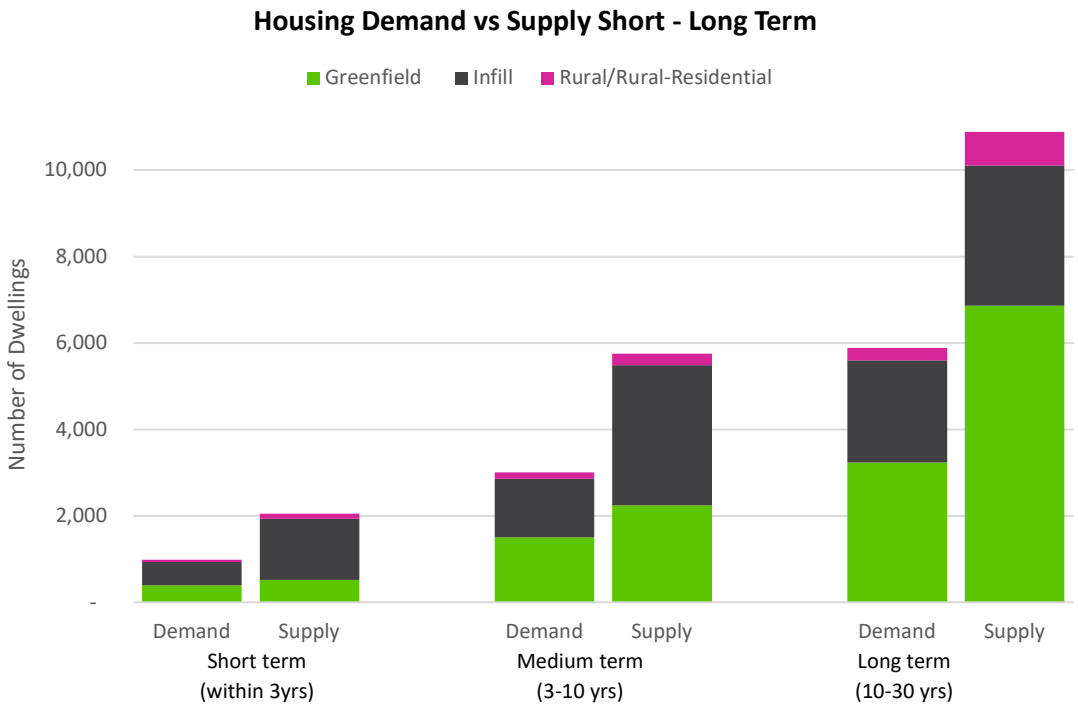


Figure 36 Housing demand compared with supply in the short, medium, and long term

Sufficiency in the short and medium term will rely on the delivery of development infrastructure in some of our greenfield areas. We have funding through the Long Term Plan, and delivery will be critical.

Table 27 Short term greenfield housing land infrastructure servicing requirements

Location	Dwellings	Availability	Infrastructure-ready timing
Kikiwhenua Residential Area	280	Plan-enabled and feasible	Water supply for the first stage is planned for delivery in 2024/25. Water supply, wastewater, and transport infrastructure for the balance is planned for delivery in 2025/26. An intersection speed zone is planned for the 2025/26 year to enable full development.
Whakarongo Residential Area	499	Plan-enabled and feasible	Stormwater infrastructure is planned for delivery in 2024/25. Water supply and wastewater infrastructure is planned for delivery from 2027/28. Approval of safe access onto Napier Road.
Napier Road Residential Area and Extension Area	100	Plan-enabled and feasible	Stormwater infrastructure is planned for delivery in 2025/26. Approval of safe access onto Napier Road is required for the Napier Road Residential Extension Area.
Mātangi Residential Area	160	Plan-enabled and feasible	Approval of intersection improvements and safe access via Benmore Avenue and Rangitikei Line.
Roxburgh Crescent Residential Area	105	Plan-enabled[31] likely to be realised.	Stormwater infrastructure is planned for delivery in 2025/26.
Total	**1,144**		

The Policy Statement states that we need to be satisfied that the additional infrastructure to service the development capacity is likely to be available. The State Highway network – which is defined as additional infrastructure – is in proximity to all the residential areas apart from the Roxburgh Crescent Residential Area. Speed limit reductions and some other interventions on the State Highway network are required to bring these areas to market as follows:

- Kikiwhenua Residential Area - A reduced speed limit on State Highway 56 is needed to enable us to upgrade the intersection of Te Wanaka Road and the state highway.

[31] We expect that the draft plan change for Roxburgh Crescent will be notified in early 2024.

- Whakarongo Residential Area, Napier Road Residential Area and Extension Area, and the Mātangi Residential Area - These all require the approval of Waka Kotahi for safe access onto State Highway 3.

We expect a reduced speed limit to be proposed for State Highway 56 in the 2024/25 Waka Kotahi speed management plan. The safe accesses required for each of the above growth areas will be led by developers as these areas are staged over time.

6.1 Summary – sufficient development capacity assessment

When comparing our estimated demand for homes and our housing supply that is plan-enabled, infrastructure-ready, commercially feasible and likely to be realised, we have found that we have sufficient development capacity across all terms to meet estimated demand. Having sufficient development capacity in the medium and long term will rely on District Plan changes to rezone land at Kākātangiata, Aokautere and Ashhurst. Across all terms, delivery of programmed infrastructure in the Long Term Plan to residential areas will also be critical.

7. Risks to Housing Supply

There are a few risks worth noting in relation to the supply of housing and meeting estimated demand.

Residential rezonings in our future growth areas and within the city

We are currently preparing several District Plan changes to rezone land for housing. This includes the Kākātangiata, Aokautere, and Ashhurst urban growth areas, Roxburgh Crescent, and the Medium Density Residential Zone.

The homes enabled through these plan changes will be key to meeting demand over the short, medium, and long term. The Medium Density Residential Zone will also be key to enabling different housing types to meet demand. If they are not approved for rezoning, or if rezoning is delayed, there is potential that demand will outstrip supply.

We recommend that these growth areas be identified in the Future Development Strategy as locations for meeting housing demand in the district. We also recommend that the District Plan changes be notified as scheduled so they become plan-enabled and infrastructure-ready in time to meet demand.

Funding, providing, and identifying development infrastructure on time

Development infrastructure, which includes roading and three waters controlled by us, is required to enable housing at Kākātangiata, Aokautere, Ashhurst, Roxburgh Crescent and, to an extent, the Medium Density Residential Zone (through infrastructure upgrades). If not delivered in time, we will not have enough infrastructure-ready housing supply to meet demand.

We recommend that the development infrastructure for Kākātangiata, Aokautere, Ashhurst, Roxburgh Crescent and the Medium Density Residential Zone be funded as a priority in the 2024 Long Term Plan.

Further to this, the Kikiwhenua, Whakarongo and Mātangi Residential Areas, along with the Napier Road Residential Area and Extension Area, all require some development infrastructure. We have identified the development infrastructure required for these residential areas in **Table 27**, and it is scheduled for delivery in our current long-term plan. If not delivered, we will not have enough greenfield land to meet demand in the short term.
We recommend that the delivery of the required development infrastructure continue to be a key priority for us in the coming years.

On another note, in recent residential rezonings, technical reporting has identified roading, stormwater and other public infrastructure requirements to support the growth. However, these have been identified in structure plans rather than being designated using the Council's powers as a requiring authority. This has resulted in the Council waiting for landowners to

develop their land and vest public infrastructure with the Council, which requires significant investment by the landowner and delays the infrastructure readiness of zone-enabled land until development occurs.

It is considered that designating land within future residential growth areas upon the plan change being approved would assist in speeding up infrastructure readiness and potentially lessen the price-to-cost ratio of greenfield sections.

We recommend that once development infrastructure corridors are identified in the plan change process and once approved, consideration be given to designating them through the Notice of Requirement process. This will be particularly important for large greenfield growth areas such as Aokautere and Kākātangiata.

Ensuring additional infrastructure is likely to be available

When providing development capacity for housing and business land, we must be satisfied that the additional infrastructure is likely to be available. Additional infrastructure includes:

- public open space
- community infrastructure
- land transport not controlled by us, such as bus routes, state highways and rail
- schools, healthcare facilities, and other social infrastructure
- telecommunications networks
- electricity and gas transmission networks.

We recommend continuing engagement with additional infrastructure providers and ensuring there is a consistent understanding of the additional development infrastructure required to support housing demand.

One of our most influential pieces of additional development infrastructure is the relationship between the current and future State Highway and future housing areas. Almost all of the District's greenfield growth areas have a State Highway interface to manage. Community severance in these growth areas will create disjointed communities if these sections of state highway are not adapted to manage safe access and a quality urban environment.
The Palmerston North Integrated Transport Initiative[32] was prepared in 2021 to align land use and the transport network better. As discussed in our engagement section, Waka Kotahi is not supportive of residential areas that result in the severance of communities or where heavy vehicle movements are not managed appropriately.

Key interventions under the Initiative that will support housing growth include:

- Consolidation of industrial land use around the Te Utanganui Central North Island Distribution Hub and larger segments of the city. This will free up pockets of industrial land in residential areas for housing.

[32] https://www.pncc.govt.nz/files/assets/public/documents/have-your-say/closed/kiwirail-freight-hub/pncc-technical-evidence/key-docs-referred-to-in-the-technical-reports/pniti-1.pdf

- Changes to the urban state highway system and creation of the Regional Freight Ring Road. This will create opportunities for safer walking, cycling, and public transport routes within the city to improve the conditions for medium density and multi-unit housing.
- Investment in key active and public transport corridors will give greater access for all modes and improve the conditions for medium density and multi-unit housing.

We recommend continuing to implement the programmes identified in the Palmerston North Integrated Transport Initiative.

Providing for standalone and attached dwellings and papakāinga

We are seeing and estimating demand for attached dwellings in the future. Rangitāne o Manawatū has expressed a desire to develop papakāinga. Ensuring that different housing types, including attached housing and papakāinga, are provided for is key to meeting this demand.

Attached housing is typically delivered through multi-unit housing developments, which require resource consent as either a restricted discretionary or discretionary activity, depending on where it is proposed. Papakāinga is a discretionary activity in the District Plan.

We recommend continuing and improved support through the consenting process be given to those who wish to develop multi-unit housing, attached housing, and papakāinga, as the activity statuses are more onerous than developing conventional standalone housing. We also recommend that the activity statuses for multi-unit housing papakāinga be considered in future District Plan changes – the Medium Density Residential Zone being a good opportunity.

Supporting the residential construction sector

The residential construction sector will be constructing and altering homes to meet demand. At present, a large proportion of our new homes being built are large standalone 4 – 5 bedroom homes. With our projected population change and the need for smaller homes, we need to ensure we support the construction sector to deliver housing and different housing types to meet demand.

We recommend continuing support through pre-application and resource consenting support to the sector. We also recommend raising awareness of what our District Plan enables and the outcomes it seeks so the construction sector is aware of what types of housing can be delivered through our District Plan provisions.

Encouraging housing intensification and different housing types

In our existing residential zone, there is a significant opportunity to develop land more efficiently for housing through more intensive housing types and by building more houses on properties. Our District Plan is set up to support this, and the Medium Density Residential Zone plan change, if approved, will further support it. In our greenfield growth areas, there is also an opportunity to enable a variety of housing options, including those that use land more efficiently, such as medium-density housing. The Business Zones provide a further

opportunity for different and more efficient housing types with housing above ground floor level.

Intensification and different housing types will be a part of meeting demand as there will be demand for smaller and attached housing. More efficiently using land for housing will mean our growth areas last longer before we have to explore more growth options in the future.

We recommend that the Council raises property owners', developers', and the construction sectors' awareness of the intensification enabled through the operative District Plan. We also recommend that all future greenfield growth areas include provision for medium-density housing.

Planning reform

The Government is reforming the resource management system. The transition from the old to the new planning system is expected to occur over ten years. The new system will shift planning to a more regional level and require us with Horizons Regional Council and Ruapehu, Wanganui, Manawatu, Horowhenua, and Tararua District Councils to prepare a Regional Spatial Strategy and Natural and Built Environment Plan.

We need to continue with our growth plan to ensure we have enough housing land to meet estimated demand. If the growth plan is not included in the new strategy and plan under the new planning system, this might result in us failing to meet demand. Ensuring our growth planning is captured through the new planning instruments will be crucial. The Future Development Strategy and progressing residential plan changes will be key to doing so.

We recommend that our existing growth plan is captured in the Future Development Strategy and that residential rezoning to enable more housing continues to progress. This will ensure that our housing demand can be met as we transition to the new planning system.

Land banking

Our current rating policy does not discourage landowners with large residential-zoned landholdings from slowly releasing land for development. A discounted rate is applied to developable land that is greater than 5 hectares. For example, a 10-hectare block only has to pay full residential rates for 5 of the 10 hectares. Applying a full residential rating to land that is zoned and serviceable may encourage land to be released faster. The rating policy should be reconfigured in its next review to encourage faster release of land and reduce land banking of serviced land.

8. Conclusion – Housing Development Capacity Assessment

We have looked at our housing market trends and indicators, household and population projections, our District Planning context and likely housing needs from Māori and other groups in our community.

Construction trends show that investment in new homes across the district has been high in recent years. Different housing types are emerging, too, as well as trends in where homes are being built and their size. Our operative District Plan enables different types of housing at various locations throughout the district. Price efficiency indicators show that we have favourable price-to-cost ratios, and the cost of construction is comparable to other-sized cities and below the national average.

There is demand for our rental, housing, and social housing markets, with indicators showing Palmerston North is comparable and, in most cases, below similar-sized cities and the New Zealand average. Nonetheless, our housing remains unaffordable for most. This is mostly a reflection of wider economic conditions in recent years.

Our population is growing, and our household sizes and make-ups are projected to change, too. Our existing housing stock, construction trends and affordability are all likely to affect Māori and other groups in our community who have different housing needs to what is currently being delivered through our existing housing stock and recent residential construction.

We have looked at where and what type of homes have been built in the district and household size projections to estimate demand for housing over the next 30 years. For housing, we estimate that Palmerston North district will need 9,884 homes over the next 30 years. This number includes competitiveness margins**.** The projected demand for homes in the short, medium, and long term is:

- 983 homes in the short term
- 3,010 homes in the medium term
- 5,891 homes in the long term

Looking at where and what types of homes have been built in the district and household size projections over the next 30 years, we have estimated over the short, medium, and long term the following demand for housing by location and type:

Table 28 Housing demand estimates by location and type

	Short term *within the next 3 years*	**Medium term** *between 3 - 10 years*	**Long term** *between 10 – 30 years*	**30 year total**
Housing location				
Greenfield	**40%** 393	**50%** 1,505	**55%** 3,240	5,138
Infill	**55%** 541	**45%** 1,354	**40%** 2,357	4,251
Rural/Rural-Residential	**5%** 49	**5%** 150	**5%** 295	494
Housing type				
Standalone dwelling	**88%** 865	**86%** 2,588	**78%** 4,595	8,048
Attached dwelling	**12%** 118	**14%** 421	**22%** 1,296	1,835

We have looked at our housing land and whether it is plan-enabled, infrastructure-ready, and commercially feasible and reasonably expected to be realised. We found:

- In the short term, we have 2,053 homes that meet these criteria, and they are in the following locations:
    - Infill – 1,408
    - Greenfield – 528
    - Rural/Rural-Residential - 117
- In the medium term, we have 5,757 homes that meet these criteria, and they are in the following locations:
    - Infill – 3,238
    - Greenfield – 2,246
    - Rural/Rural-Residential - 273
- In the long term, we have 10,883 homes that meet these criteria, and they are in the following locations:
    - Infill – 3,238

- Greenfield – 6,865
- Rural/Rural-Residential – 780

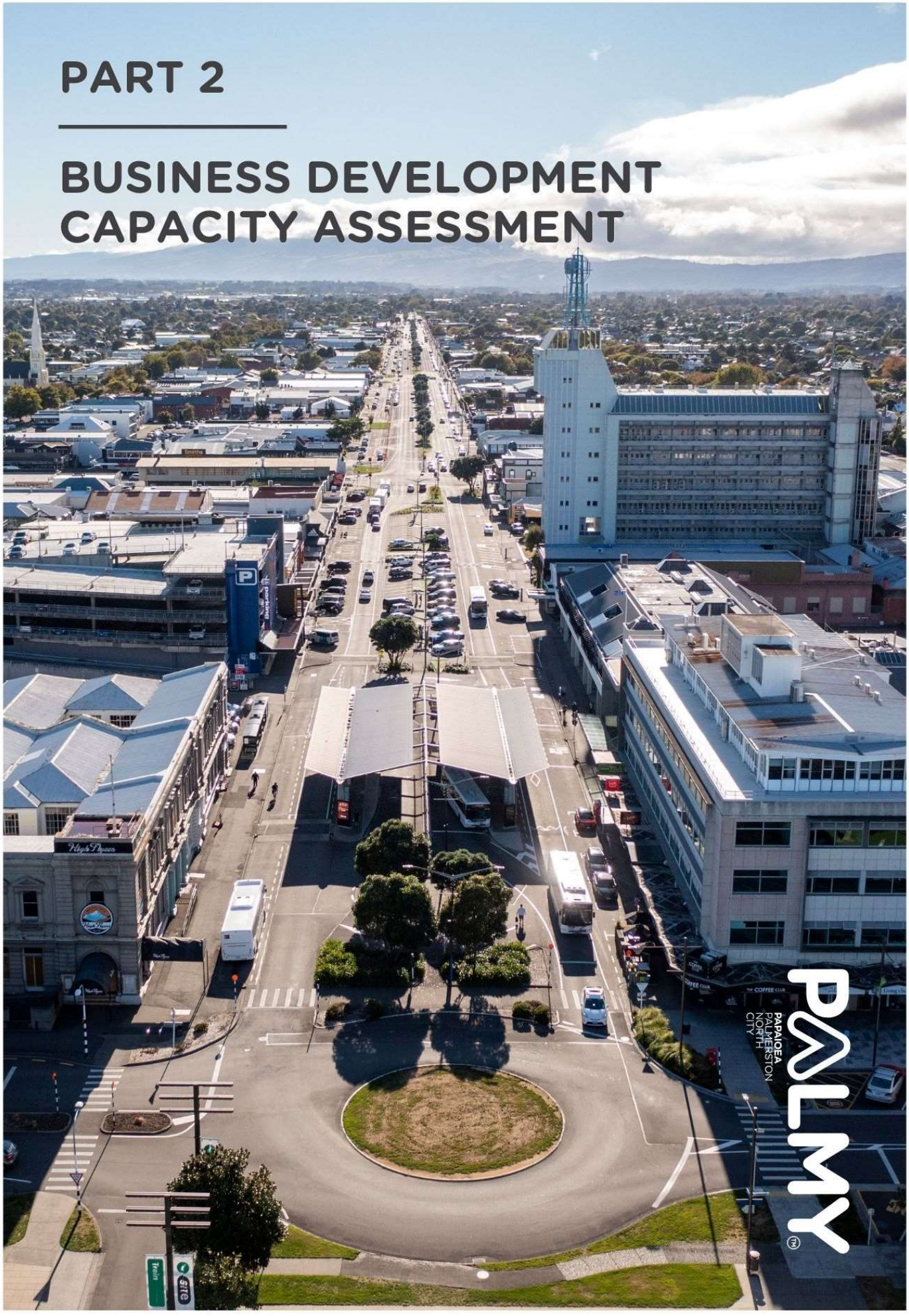
When comparing our housing demand and our plan-enabled, infrastructure-ready, commercially feasible, and reasonably expected to be realised housing land, we have enough development capacity in the short, medium, and long term to meet demand.

There are a few risks to meeting demand, which we have identified and made recommendations on. These include:

- Ensuring future residential rezonings to meet demand in the short, medium, and long term are progressed on time. If not, we will not have enough housing to meet demand.
- Ensuring development infrastructure is provided on time to meet demand, particularly in the short term. If not, we will not have enough greenfield housing supply to meet demand.
- Ensuring additional development infrastructure is likely to be available to meet demand over the next 30 years.
- Ensuring that different housing types, including attached housing and papakāinga, are provided so that different housing needs are catered for. The District Plan enables these housing types, but further support through the consenting process and the activity statuses for multi-unit housing papakāinga should be considered.
- Ensuring the residential construction sector is supported by us to deliver housing and different housing types to meet demand, including through pre-application and resource consenting support and raising awareness of what our District Plan enables and the outcomes it seeks.
- Ensuring intensification is supported to make efficient use of our housing land and to ensure our greenfield residential areas last longer.
- Ensuring our growth planning is captured in new planning instruments introduced through planning reform.

PART 2

BUSINESS DEVELOPMENT CAPACITY ASSESSMENT



1. Introduction

Like housing, the National Policy Statement on Urban Development 2020 ('the Policy Statement') requires us to estimate the demand for additional business land from business sectors in the region and Palmerston North City over the short, medium, and long terms.

We also need to assess what business land is plan-enabled, infrastructure-ready, and suitable for each business sector. We then need to assess whether we have enough land to meet demand. If we do not have enough land, the Assessment must identify where and when the insufficiency will occur and look at whether planning documents, a lack of development infrastructure, or both cause and contribute to the insufficiency.

This part of the Assessment contains this information in accordance with the requirements of the Policy Statement.

The first section sets out the business land demand assessment. The second sets out our development capacity assessment, including how much business land we have. The next section contains the sufficient development capacity assessment, which compares our business land demand with supply to determine if we will have enough land to meet demand.

We have found we have sufficient business land to meet projected demand over the next 30 years.

2. Our Business Overview

This section gives an overview of trends in non-residential building consents and construction activities. It also gives an overview of our business land planning framework and projects that will affect business land growth over the next 30 years. **Non-residential building trends**

In 2022, 128 non-residential building consents were issued. Education buildings accounted for the largest number of consents, followed by factories, industrial and storage, and office administration and public transport buildings.

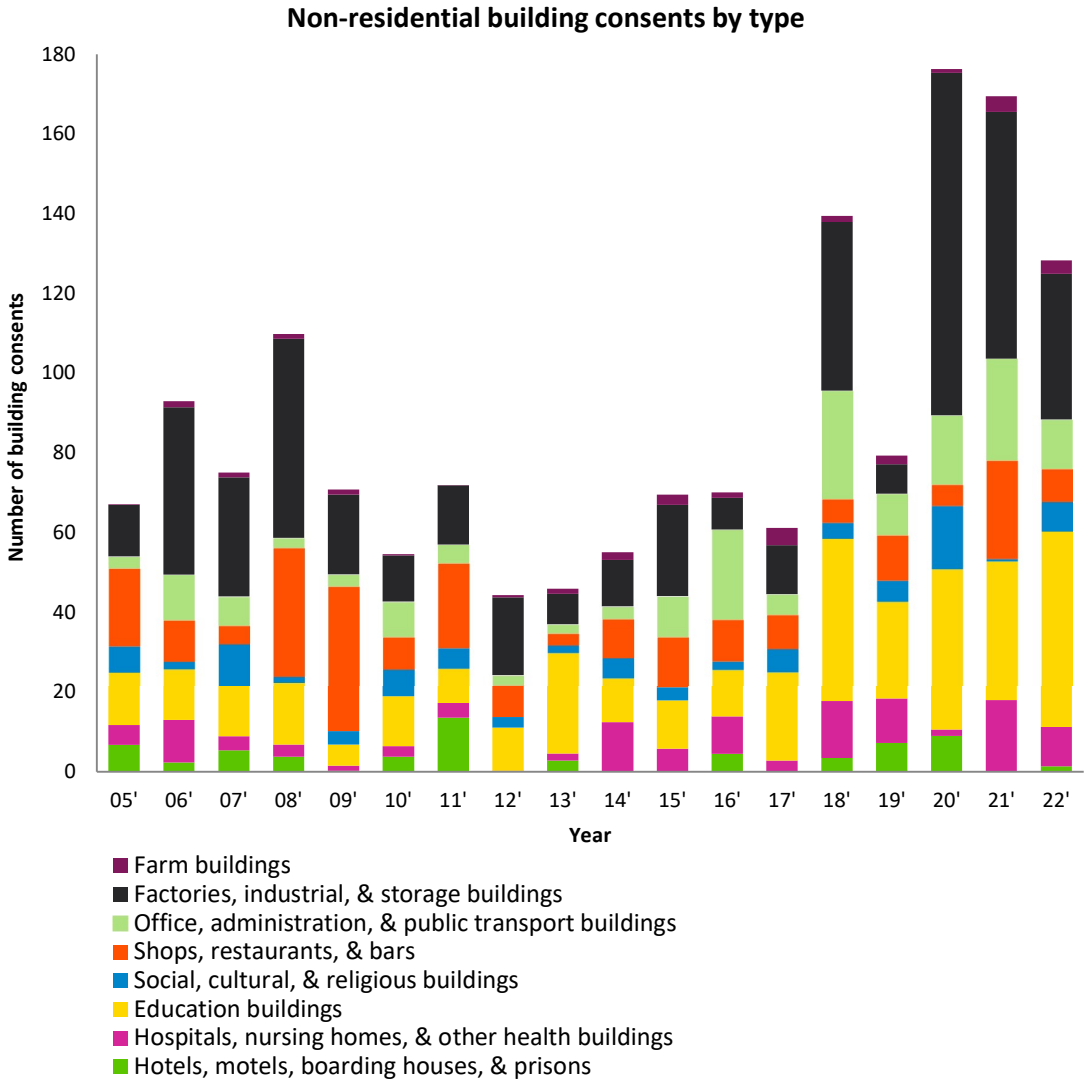


Figure 37 Non-residential building consents by type (2005 - 2022)

Major building consents approved during 2022 were:

- Construction of a new Manukura School campus – Hokowhitu
- Construction of a new 28-bed mental health facility- Te Whatu Ora Midcentral – Palmerston North Hospital
- Factory and industrial buildings, including for storage and distribution - Palmerston North Airport
- MetLife Care Palmerston North Villas retirement village development -
- Seismic strengthening, renovation, and refit of commercial buildings

The value of non-residential building consents (new and alterations) issued for the year ending December 2022 was $128 million, a decrease of 24% from 2021. The annual value of consents for the construction of new non-residential buildings was $92 million (69% of total value) compared to $118 million in 2021 (72% of total value). The average annual value for new non-residential building consent for the past ten years is $65 million.

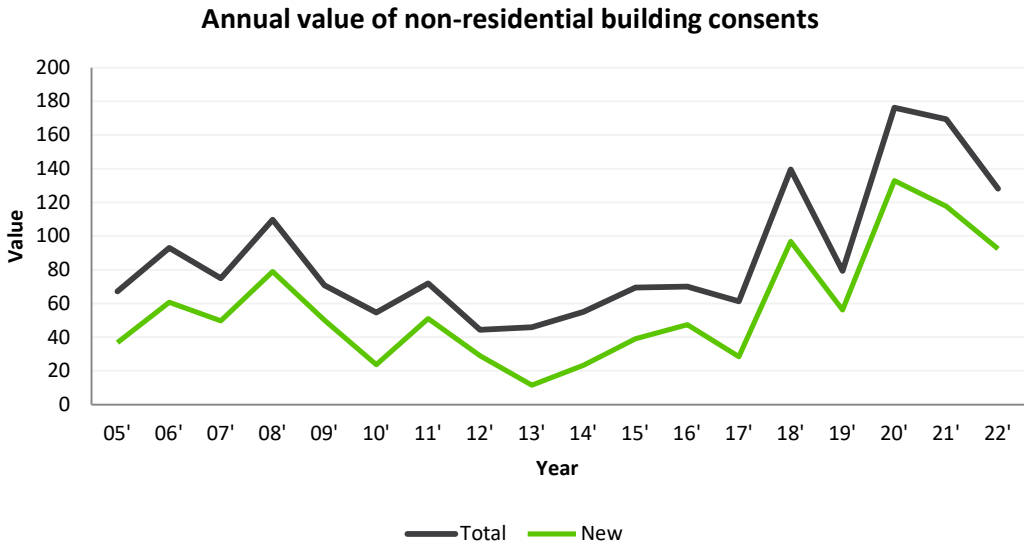


Figure 38 Annual value of non-residential building consents in Palmerston North (new construction vs additions and alterations)

The figure below shows the distribution of cumulative non-residential consents from 2003 to 2022 by statistical area. Representing more than two-thirds of the value of non-residential consents, the top four statistical areas with well over $150 million each are as follows:

- Palmerston North Airport (where the Airport and North East Industrial Zones are located) - accounted for 19% of non-residential building consents by value.
- Palmerston North Central (where business zones are located) – accounted for 17% of non-residential building consents by value
- Tremaine (covering most of the Industrial zone and North-East Industrial Zone) – accounted for 16% of non-residential building consents by value
- Turitea (where Massey University and adjacent research institutes are located) – accounted for 15% of non-residential building consents by value.

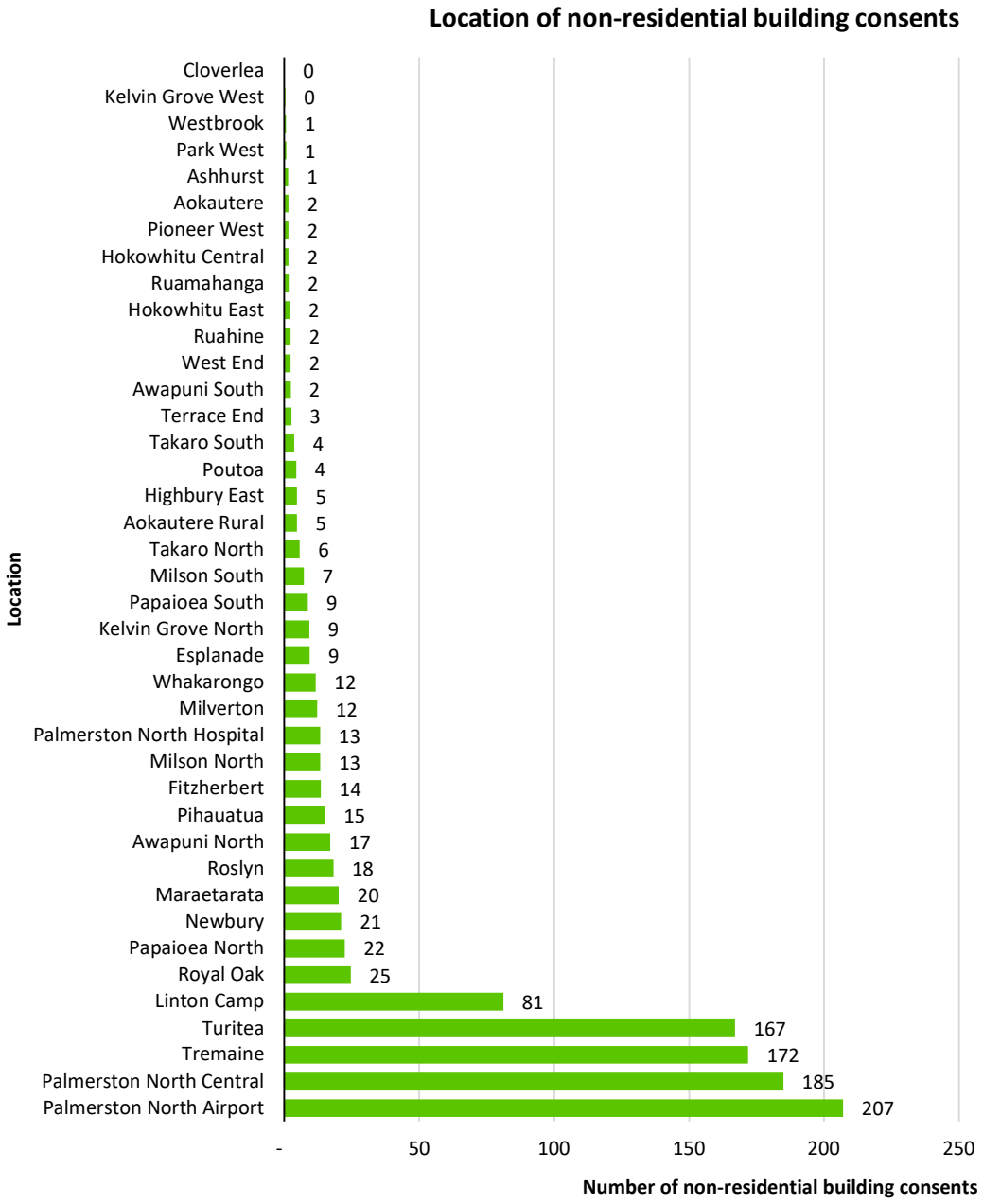


Figure 39 Distribution of non-residential consents (2003 – 2022 December) by SA2 ($ million)

Non-residential construction activity has been impacted by capacity constraints in the construction sector, with activity being dominated by demand for residential construction throughout 2020 and 2021. Residential investment has weakened as expected in 2022 in response to tight monetary and financial conditions and the high cost of living. Weaker demand for residential construction activity is expected to help meet capacity for an increase in non-residential construction. Consent values in 2023 indicate an increase in non-residential consent activity in the city, alongside weaker residential construction activity, as expected.

2.2 Business District Plan zones, floor area and vacancy rates

Business activity is concentrated within four distinct business zones, which have a hierarchy and total of 152.6 hectares and offer 839,129m^2 of developed floor space[33]. We have undertaken a vacancy survey of the business zones, which has found some vacancies and trends associated with it.

The Inner Business Zone is intended to serve as a primary commercial and business centre of the city

The Inner Business Zone is 31.6 hectares with 329,210m^2 total developed floor area[33]. The zone is commonly referred to as the city centre and lies at the hub of the City. The specific function of the zone is to accommodate a range of business activities such as entertainment, cultural uses, offices and retail outlets within a highly walkable and accessible urban environment.

The Outer Business Zone caters for a range of businesses that need larger areas for their activities

The Outer Business Zone is 80 hectares with 390,503m^2 total developed floor area[33]. It is located around the Inner Business Zone and extends out along Main Street, Fitzherbert Avenue and Rangitikei Street, which are our main entrances to the City. The zone is a less intensive and more vehicle-oriented commercial environment than the Inner Business Zone.

The zone caters for businesses that need larger areas, such as manufacturing, large supermarkets, and distribution facilities. The Zone is also intended to accommodate businesses that need access to major transport routes such as our arterial roads or highways.

The Fringe Business Zone provides for space extensive retail activities and large-scale activities

The Fringe Business Zone is 19.6 hectares with 59,184m^2 total developed floor area[33]. It is located on the Rangitikei Street and Church Street edges of the Outer Business Zone. It caters for business activities that require a location on the fringe of the city and accommodates a range of business activities that may not be appropriate within the city centre or in residential areas. The zone must be developed in such a way that it does not adversely affect the function of the Inner and Outer Business zones.

The Local Business Zone serves the day-to-day needs of residents in their neighbourhoods

The Local Business Zone is 21.4 hectares with 60,232m^2 total developed floor area[33]. The zone is in various residential areas of the city. It caters for a range of local business activities, such as in large and small neighbourhood shopping centres, including small-scale service and retail businesses.

The zone is designed to support the day-to-day needs of residents by providing convenient access to services and goods in their neighbourhoods as well as reducing the need to travel further afield.

[33] As at December 2021 based on the TelferYoung from CBRE Palmerston North Commercial Market Survey 2022 Palmerston North City

Proposed District Plan Change G: Aokautere Urban Growth, which has early legal effect, proposes the rezoning of 0.79 hectares of land to Local Business Zone. At Kākātangiata we expect 3.34 hectares of land to be zoned Local Business Zone.

There is vacancy in our existing business zone's buildings and land

We have undertaken a vacancy survey (attached as Appendix 3). There are some vacant buildings and land in the business zones. The overall vacancy rate across all business zone buildings is 65,603m^2, representing 8.36% of total floor space[33]. There appears to be a correlation between building age and vacancy. Buildings built before 1960 have the highest vacancy rates of 19.75% (31,890m^2), followed by buildings built between the 1960s and 1990s at 5.02% (21,315m^2) and then buildings built post-year 2000 at 6.24% (12,398m^2).

Building vacancy rates in the different business zones in the city were found to be:

- 13.3% in the Inner Business Zone
- 5.13% in the Outer Business Zone
- 1.11% in the Fringe Business Zone
- 4.9% in the Local Business Zone

For floor areas located on the ground floor and upper floors, there is a difference in vacancy rates as well; Upper floor vacancy rates across all business zones were 15.11%, while ground floor vacancy rates across all business zones were 5.63%.

There is also vacant land[34] in the business zones. In the Inner Business Zone, 1.6 hectares of land is vacant. In the Outer Business Zone, 10.4 hectares of land is vacant. The Fringe Business Zone contains 4.0 hectares of vacant land, and in the Local Business Zone, 3.1 hectares is vacant.

2.3 Strategies and projects related to business activities

Our business activities have evolved in a particular land use pattern, and our District Plan and Commercial Land Use Strategy reinforce this

The function and business activities that are encouraged in each of the four business zones have been described above. In summary, outside of the local convenience-based services and retail located throughout the City's suburban areas. Retailing and associated commercial activities have focused around the historical city centre and gradually expanded from the

[34] Vacant commercial zoned land is defined as any commercially zoned land parcel containing no significant occupied or vacant commercial buildings. Vacant commercial zoned land parcels include:

- Vacant land parcels used as car parks within business zones
- Occupied land in industrial and business zones used for storage that is not associated with a business such as a car yard or car rental agency
- Residential or rural rated properties within commercial zones
- Land under construction, including completed properties without floor areas in the DVR
- Vacant land within commercial zones

core to form a naturally evolving hierarchy of business areas radiating from the centre of the City. The District Plan approach reinforces this pattern of development in the business zones.

We have a Commercial Land Use Strategy, which seeks to maintain retail and office activity in the core of the city and discourage the dispersal of these activities to the industrial fringes of the city. The District Plan's business zones' objective, policy and rule framework reinforce this strategy.

City Centre Streets project may drive interest in leased space and redevelopment

The City Centre Framework coordinates public and private investment and identifies strategic development sites within the city centre. The council's vision for the city centre is to make it a place where people want to visit and live, meet up with their friends and family, be entertained, stay longer, and support local retailers.

Ten key directions and projects in the City Centre Framework aim to deliver this vision. The most notable is Streets for People, now known as the City Centre Streets project. The project is a multi-million dollar project to transform the city centre streets to create wider footpaths, narrower roads, more vegetation, better streetlights, more spots for outdoor dining and seating, and more attractive streets.

Feedback from Cuba Street building owners, where the street has been similarly transformed, indicates the upgrades have assisted with increased interest in leased space and redevelopment opportunities in the area. We expect the same would occur in the city centre as the streets are progressively transformed.

We have several earthquake-prone buildings in the city centre, and Council funding supports their strengthening and redevelopment

Several buildings within the city centre are heritage-listed and have been identified as earthquake-prone. The council has seen ongoing investment by building owners to strengthen these. The Council's Natural and Cultural Heritage Fund provides funding to heritage building owners for strengthening investigations, and the strengthening work itself further supports this. It is expected that investment to strengthen buildings will continue, and this will support redevelopment and lower vacancy rates of these buildings in the city centre over time.

2.4 Industrial District Plan zones, floor area and vacancy rates

As for existing industrial land supply, it is located within several industrial areas across the district within the Industrial (and our associated 'subzones') and Airport Zones with a combined area of 840.6 hectares.

The Industrial Zone provides for a wide range of industrial activities

The Industrial Zone covers 403.5 hectares of the city and offers 1,015,531m^2 of total floor space[35]. The zone permits a wide range of industrial activities. It has a subsidiary function in providing for other activities essential to the operation of industry, such as industrial services and convenience shops for workers. Other non-industrial activities, such as community and leisure facilities and semi-industrial retailers, including building suppliers and home renovation firms, which cannot be as readily accommodated for economic and operational reasons, within other zones are also contained in the zone.

The Industrial Zone has a few subzones

Within the Industrial Zone, there are various 'subzones' – the Braeburn Industrial Area, Railway Road Industrial Enclave, and Midhurst Street Industrial Area – which have different objectives, policies and rule frameworks than industrial-zoned land outside of these areas, which in some instances restrict how the land can be used.

Major dairy manufacturing and processing activities are located at the Longburn Dairy Manufacturing Site. The 33.5-hectare Braeburn Industrial Area provides additional land for the future expansion of these activities. When rezoned, it was envisaged that the Braeburn Industrial Area would remain in the single ownership of Fonterra and would not be for the purpose of meeting the wider industrial land needs of the City. In this regard, subdivision has been made a non-complying activity and planning provisions have been developed to provide for dairy-related activities only.

The Railway Road Industrial Enclave generally enables any industrial and ancillary activity; however, it includes access and landscaping requirements to recognise its position as a key entry point into the city.

The Midhurst Street Industrial Area was specifically developed to meet the demand for small to medium-sized industrial sites in the City. Development within the Midhurst Street Industrial Area is managed by reference to a Structure Plan to achieve the desired environmental results and the integrated provision of infrastructure.

The North East Industrial Zone provides for larger industrial sites and those industrial activities requiring 24/7 operations

The North East Industrial Zone covers 223.6 hectares and offers 146,302m^2 of total floor area[35]. The North East Industrial Zone is a greenfield industrial area, rezoned in three different stages – 2004, 2010 and 2015. The zone responds to specific market requirements for large industrial sites of 5 hectares and above and sites that can be accessed on a 24-hour basis. It responds to projected growth, particularly in the distribution and communication industries in the City.

Part of the zone (78.2 hectares) still needs roading or three waters infrastructure. This is to be funded through Long Term Plan programmes and development contributions as development occurs.

[35] As at December 2021 based on the TelferYoung from CBRE Palmerston North Commercial Market Survey 2022 Palmerston North City (attached to this Assessment as Appendix 3)

50 hectares of the zone is designated by KiwiRail for the Regional Freight Hub. 15 hectares will be available for industrial use, but 35 hectares will be used exclusively for the freight hub operations.

The Airport Zone provides for some industrial activities too

The Airport Zone covers 213.5 hectares and offers 23,361m^2 of total floor area[35]. The Airport Zone is comprised of two distinct precincts:

- The Core Airport Precinct – land within the Airport Zone encompassing the Palmerston North Airport's airfield, hangars, apron, terminal, public parking, and other core airside activities, which is not available for business use; and
- The Airport Environs Precinct – land on the southern half of Airport Drive and McGregor Street, which has no airside access, which is 12.9 hectares and is considered part of the district's business land.

The District Plan provides for most industrial and commercial activities as permitted activities in the Airport Environs Precinct, but there are restrictions on floor area for some commercial developments. For example, stand-alone office activities and retail activities over 100m² are classified as Discretionary Activities. This is to reinforce that this type of activity should occur in the business zones.

Vacancy rates in industrial buildings are low, but there is some vacant land

The total vacancy rate of buildings across the zones mentioned above is 1.11% (13,251 m^2 vacant)[35]. There are no vacant buildings in the Airport and North East Industrial Zones, indicating high demand for industrial floor area in the city.

Trends in vacancy rates in older buildings in the zones are similar to those in the business zones, with buildings built pre-1960s displaying higher vacancy rates than those built post-2000s. However, this difference in vacancy is more marginal than in the business zones.

- Buildings built post year 2000 had a vacancy rate of 0.86% (1,876m^2)
- Buildings built between 1960s to 1990s had a vacancy rate of 1.17% (7,896m^2)
- Buildings built pre-1960s had a vacancy rate of 1.56% (1,876m^2)

Despite low building vacancy rates, there is some vacant land[36] in the industrial areas:

[36] Vacant commercial zoned land is defined as any commercially zoned land parcel containing no significant occupied or vacant commercial buildings. For industrial land parcels, this means less than 50 sqm of floor area or only a small percentage of the land parcel being occupied by commercial buildings. It also included:

- Occupied land in industrial and business zones used for storage that is not associated with a business such as a car yard or car rental agency
- Residential or rural rated properties within commercial zones
- Land under construction, including completed properties without floor areas in the District Valuation Roll

- For the Industrial Zone, there is 87 hectares vacant; however, this includes 33.5 hectares of Braeburn Industrial Area, which is restricted to dairy-related use only through our District Plan. This means 53.5 hectares is vacant for industrial use.
- For the Airport Zone, there is 12.9 hectares.
- For the North East Industrial Zone, there is 180.9 hectares, but this includes 35 hectares of land designated by KiwiRail for their Regional Freight Hub, which will not be available for industrial use. This means 145.9 hectares is vacant for industrial use.

2.5 Planned developments, projects and strategies that will influence the demand and supply of industrial land

The KiwiRail Regional Freight Hub will be a catalyst for a multi-modal freight distribution hub in Palmerston North

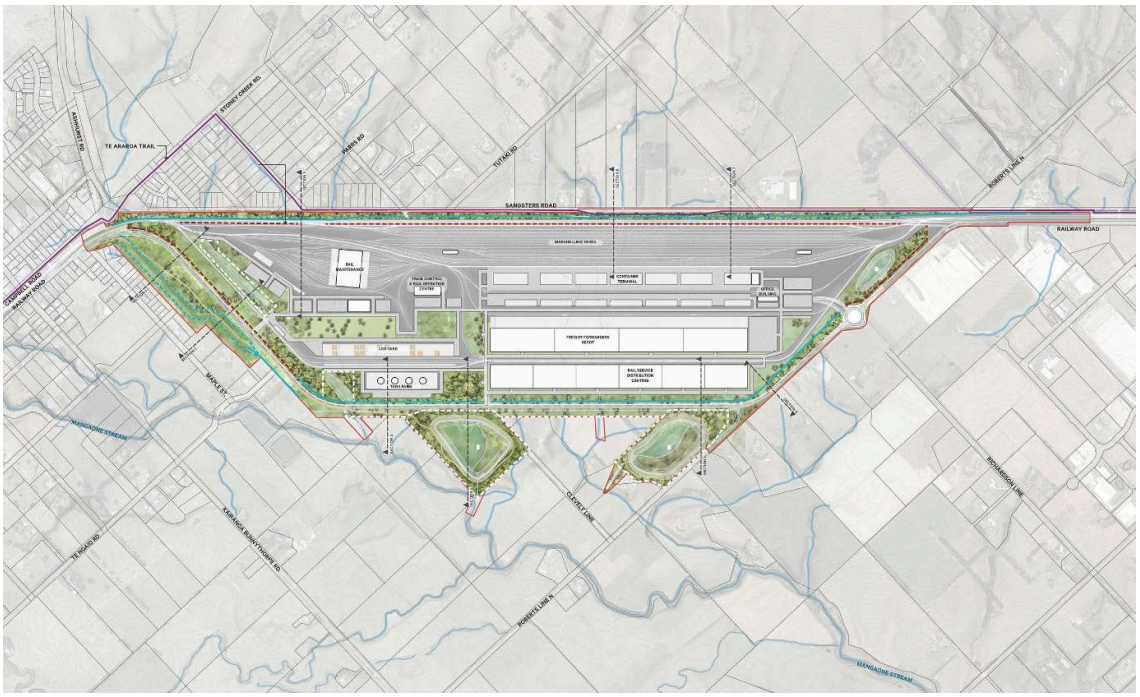


Figure 40 KiwiRail Regional Freight Hub

In late 2020, KiwiRail lodged a Notice of Requirement for 50 hectares of land between Palmerston North and Bunnythorpe. The designation is for the construction and operation of a new intermodal rail and freight hub. In 2022, a decision to recommend the Notice of Requirement was reached, and by mid-2023, all appeals were resolved and land purchases underway.

The KiwiRail Regional Freight Hub site will combine a container terminal, warehousing, and bulk goods, and forestry loading operations with KiwiRail's train operations and maintenance facilities. It will allow distribution companies to co-locate on the site, ensuring access to rail.

KiwiRail has indicated that the freight hub will commence operation in approximately 2032, with the site fully developed by 2051. Once operational, KiwiRail's yards on Tremaine Avenue

will become disused. This is approximately 24 hectares of land, which is zoned Industrial. In initial discussions with KiwiRail, they have indicated a desire to masterplan the disused area for industrial use and increase connectivity between the nearby residential areas. Early indications suggest that the topography of the site could be suitable for additional stormwater resilience in the city.

It is anticipated that the KiwiRail Regional Freight Hub will spur the growth of freight and logistics industries in Palmerston North, particularly near the hub. The Te Utanganui masterplan will support this growth.

Te Utanganui – the Central New Zealand Distribution Hub is being master planned and will drive demand for land from freight distribution activities

Te Utanganui – The Central New Zealand Distribution Hub is a project to create a multi-modal freight distribution hub connecting air, road, rail, and sea in the lower North Island. Te Utanganui is intended to act as the third node in New Zealand's national transport and freight network. The catalyst for Te Utanganui is the development of the KiwiRail Regional Freight Hub and the subsequent opportunity for multi-modal freight distribution, given the concentration of road, rail, and air transport options in the vicinity.

Te Utanganui covers the area between Bunnythorpe and the north eastern industrial edge of Palmerston North. A masterplan has been developed for Te Utanganui and includes the rezoning of land in three stages; the first, 26 hectares will be available in 2025/26, the next 150 hectares in 2032 and the final to coincide with the opening of the KiwiRail Regional Freight Hub, a further 112 hectares in 2052. The Masterplan provides for ~288 hectares of industrial land, excluding the stormwater reserves required.

Initial engagement with affected landowners is beginning at the time of writing this Assessment. Following the engagement, the Council expects to initiate the first plan change to rezone the first stage of land in 2024.

The Braeburn Industrial Area might no longer be needed for just dairy-related industrial use

During engagement for the Kākātangiata urban growth area, Fonterra has indicated the Braeburn Industrial Area, which they own, is surplus to their needs and are interested in changing the District Plan to enable non-dairy related industries to establish there. The council is supportive of this. Hence, in the medium to long term, subject to a plan change, this area could represent an industrial growth area of 33.5 hectares.

The Palmerston North Integrated Transport Initiative will reinforce the district as a freight and distribution hub

We prepared the Palmerston North Integrated Transport Initiative ('the Initiative') with Waka Kotahi in response to Palmerston North and the Manawatū Region's emergence as a distribution hub for New Zealand and transport network problems resulting from past land use planning.

The overall intent of the initiative is to manage population and freight and distribution industry growth whilst maintaining efficient freight movements to and from existing and future industrial areas within the city.

It sets out a list of safety and access improvement programmes to better integrate land uses in Palmerston North with the transport network. It also includes longer-term interventions such as a future second bridge across the Manawatū River and Regional Freight Ring Road.

The Initiative will reinforce the freight and logistics hub at Te Utanganui through efficient access to the Regional Freight Ring Road. It will also reinforce the idea that businesses and industries associated with heavy vehicle movements should be located along particular roading corridors such as Tremaine Avenue.

We have pockets of industrial-zoned land in the City that are being looked at for rezoning to residential

We have pockets of industrial land zoned scattered throughout the city, which are surrounded by residential areas. Rezoning these pockets of industrial to residential makes sense because it gives us more land to meet housing demand, removes industrial traffic from our residential areas, and avoids reverse sensitivity effects in the future. Still, it removes capacity from our industrial zones. For example, if the Roxburgh Crescent rezoning is approved, then around 3.9 hectares of land will be removed from our industrial zone. Engagement with the development sector has identified more sites like Roxburgh Crescent where rezonings could be proposed by the landowners, such as 4.46 hectares on Botanical Road and a landlocked Fringe Business zoned area on North Street. We need to ensure that any industrial or business land rezoned for residential use does not result in a commercial-zoned land shortage.

2.6 Summary – Our business land

There are lots of moving parts in our business land markets. We have a number of different District Plan zones where our business and industrial sectors are located, and our District Plan reinforces this. Within the zones, we have taken a stocktake of floor area and vacancy rates. There are some vacancy trends in buildings that are older, and we have some vacant land within the zones. There are a number of planned developments, projects and strategies that will affect our business and industrial land supply. In particular, KiwiRail's Regional Freight Hub, Te Utanganui and the Palmerston North Integrated Transport Initiative and strategic planning responses will reinforce the northeast edge of Palmerston North City as a freight and logistics hub across the next 30 years.

3. Business Land Demand Assessment

Clause 3.28 of the Policy Statement requires us to undertake a business land demand assessment. The requirements for the demand assessment are as follows:

- We must estimate, for the short term, medium term, and long term, the demand from each business sector for additional business land in Palmerston North City. We have estimated demand for business land throughout the district, not just Palmerston North City.
- We must express the demand in either hectares or floor areas. We have projected demand for both.
- We must:
    - set out the most likely projection of demand for business land by business sector in the short term, medium term, and long term; and
    - set out the assumptions underpinning that projection; and
    - if those assumptions involve a high level of uncertainty, the nature and potential effects of that uncertainty.

As for information on our most likely demand projection and the assumptions underpinning it, information on this can be found in our Methodology, Inputs and Assumptions section and the Projections Report. The nature and effects of any uncertainty involved in those assumptions are contained in our methodology and Projections Report as well.

The Policy Statement says we may identify business sectors in any way we choose but must, as a minimum, distinguish between sectors that would use land zoned for commercial, retail, or industrial uses. We have defined business sectors as follows:

Table 29 Business sectors used and definitions

Business sector	Defined as
Small & medium industrial	Floor area of up to 11,000m^2, located in an industrial zone, and assigned as "industrial" in best use category. [37]
Large floor plate industrial	Floor area of more than 11,000m^2, located in an industrial zone and assigned as "industrial" in the best use category.
Accommodation	Assigned as "commercial accommodation" in best use category
Small & medium retail (pedestrian-oriented retail)	Floor area of up to 3,900m^2 of floor area and assigned in best use category as: • Commercial retail • Commercial liquor • Commercial cinema/hall • Commercial health operations
Large format retail (vehicle-oriented retail)	Area of more than 3,900m^2 of floor area, and assigned in best use category as: • Commercial retail • Commercial liquor • Commercial cinema/hall • Commercial health operations
Commercial office	Assigned as "commercial office" in best use category
Commercial services	Located within industrial and business zones and assigned in best use category as: • Commercial service station • Commercial motor vehicle • Commercial education uses (e.g. early childhood centres) • Various "Industrial" categories located in business zones

[37] 'Best use category' generally reflects the current or main use of the property and is in the District Valuation Roll.

3.1 Projecting demand

Fresh Info prepared our projections estimating the demand for business land over the short, medium and long term from each business and industrial sector. Detailed projections can be found in the Palmerston North City Commercial Land Assessment ('Projections Report') in Appendix 2. Underlying assumptions can also be found in the Projections Report and our Methodology, Inputs and Assumptions section.

We estimated demand by using population projections along with current and predicted changes in sectors' commercial floor areas and land requirements. These were used to project demand because:

- As the population expands, the demand for goods, services, and employment opportunities increases. Businesses need adequate commercial space to satisfy this demand, driving growth in the commercial footprint.
- Growth in demand for local goods and services creates more business and employment opportunities, which is a catalyst for population growth.

3.2 Floor area demand assessment

The results of the floor area demand assessment estimate demand for:

- 84,727m^2 in the short term (within the next 3 years)
- 255,916m^2 in the medium term (between 3 and 10 years)
- 780,840m^2 in the long term (between 10 and 30 years)

The table below shows the projected floor area demand for each business sector across the short, medium and long terms. Note that competitiveness margins[38] are not included in the floor area demand figures below.

[38] The competitiveness margins under clause 3.22(2) of the Policy Statement are:

- For the short term, 20%
- For the medium term, 20%
- For the long term, 15%

Table 30 Estimated floor area demand over the short, medium, and long term from each business sector (in m²)

Business Sector	Short term *within the next 3 years*	Medium term *between 3 - 10 years*	Long term *between 10 – 30 years*	Total 30 Year Demand
Small & medium industrial	28,553	79,606	188,244	296,403
Large floor plate industrial	49,740	147,858	448,660	646,258
Accommodation	0	3,805	13,899	17,704
Small & medium retail (pedestrian-oriented retail)	0	0	38,136	38,136
Large format retail (vehicle-oriented retail)	2,950	11,189	28,722	42,861
Commercial office	0	59	28,682	28,741
Commercial services	3,484	13,399	34,497	51,380
Total	84,727	255,916	780,840	1,121,483

3.3 Land area demand assessment

A land area assessment was undertaken based on the projected demand for floor area. The demand for business land was projected based on calculating the floor area per hectare [39]for each business sector in 2023 and applying assumptions around how these figures would change in the short, medium, and long terms. For some business sectors, floor areas per hectare are assumed to increase over time as we expect land to be more intensively used in the future.

These assumptions are found in our Methodology, Inputs and Assumptions section and further detail in the Projections Report.

The table below shows the demand for land (in hectares) from each business sector over the short, medium, and long terms to support the demand for floor space set out above. Note that competitiveness margins have not been added to this figure.

[39] Note that the floor area per hectare does not take into account each business sectors land requirements to meet District Plan requirements such as landscaping areas and stormwater attenuation nor setback requirements.

Table 31 Estimated demand for land for the short, medium, and long term from each business sector (in hectares)

Business Sector	Short term *within the next 3 years*	Medium term *between 3 - 10 years*	Long term *between 10 – 30 years*	Total 30 Year Demand
Small & medium industrial	7.6	20.4	44.2	72.2
Large floor plate industrial	11.6	33.9	99.7	145.2
Accommodation	0.0	0.3	1.0	1.3
Small & medium retail (pedestrian-oriented retail)	0.0	0.0	3.3	3.3
Large format retail (vehicle-oriented retail)	0.5	2.0	4.8	7.3
Commercial office	0.0	0.0	0.6	0.6
Commercial services	0.7	2.7	6.4	9.8
Total	20.4	59.3	160.0	239.7

3.4 Summary – business land demand assessment

Based on the demand projections, we estimate a total demand:

- In the short term, for 84,727m^2 of floor area and 20.4 hectares of land
- In the medium term for 255,916m^2 and 59.3 hectares of land
- In the long term, 780,840m^2 of floor area and 160 hectares of land

The table below shows the projected demand for floor and land area from each business sector across the short, medium, and long terms.

Table 32 Estimated demand for floor area and land from each business sector over the short, medium, and long terms

	Short term *within the next 3 years*		Medium term *between 3 - 10 years*		Long term *between 10 – 30 years*	
Business Sector	**Floor area (m^2)**	**Land demand (hectares)**	**Floor area (m^2)**	**Land demand (hectares)**	**Floor area (m^2)**	**Land demand (hectares)**
Small & medium industrial	28,553	7.6	79,606	20.4	188,244	44.2
Large floor plate industrial	49,740	11.6	147,858	33.9	448,660	99.7
Accommodation	0	0.0	3,805	0.3	13,899	1.0
Small & medium retail (pedestrian-oriented retail)	0	0.0	0	0.0	38,136	3.3
Large format retail (vehicle-oriented retail)	2,950	0.5	11,189	2.0	28,722	4.8
Commercial office	0	0.0	59	0.0	28,682	0.6
Commercial services	3,484	0.7	13,399	2.7	34,497	6.4
Total	**84,727**	**20.4**	**255,916**	**59.3**	**780,840**	**160.0**

4. Business Land Development Capacity Assessment

Clause 3.29 of the Policy Statement requires us to undertake a business land development capacity assessment. We must estimate the following, for the short term, medium term, and long term, for the region and Palmerston North City:

- the land supply to meet the expected demand for business land for each business sector, plus the appropriate competitiveness margin; and
- of that development capacity, the development capacity that is:
    - plan-enabled[40]; and
    - plan-enabled and infrastructure-ready; and [40]
    - plan-enabled, infrastructure-ready, and suitable for each business sector.

The Policy Statement says we may define what it means for development capacity to be "suitable" in any way we choose. Still, suitability must, at a minimum, include suitability in terms of location and site size. We have determined suitability by looking at trends in site size and location associated with each business sector and what District Plan zones they are primarily located in.

4.1 Development capacity to meet expected demand

We have added the demand (in hectares) for business land discussed in the previous section and the competitiveness margins, which are:

- 20% for the short term
- 20% for the medium term
- 15% for the long term

The competitiveness margins (in hectares) for each sector are:

[40] See clause 3.4 of the Policy Statement for the meaning of plan-enabled and infrastructure-ready.

Table 33 Competitiveness margins for each business sector in the short, medium, and long term

Business Sector	Short term 20% competitiveness margin	Medium term 20% competitiveness margin	Long term 15% competitiveness margin
Small & medium industrial	1.5	4.1	6.6
Large floor plate industrial	2.3	6.8	15.0
Accommodation	0.0	0.1	0.2
Small & medium retail (pedestrian-oriented retail)	0.0	0.0	0.5
Large format retail (vehicle-oriented retail)	0.1	0.4	0.7
Commercial office	0.0	0.0	0.1
Commercial services	0.1	0.5	1.0
Total	**4.1**	**11.9**	**24.0**

The resulting development capacity to meet expected demand, which is the projected demand plus the above competitiveness margins, is therefore:

Table 34 The development capacity, in hectares, to meet expected demand for business land - the projected demand plus competitiveness margins

Business Sector	Short term *within the next 3 years*	Medium term *between 3 - 10 years*	Long term *between 10 – 30 years*
Small & medium industrial	9.1	24.5	50.8
Large floor plate industrial	13.9	40.7	114.7
Accommodation	0.0	0.4	1.2
Small & medium retail (pedestrian-oriented retail)	0.0	0.0	3.8
Large format retail (vehicle-oriented retail)	0.6	2.4	5.5
Commercial office	0.0	0.0	0.7
Commercial services	0.8	3.2	7.4
Total	24.5	71.2	184.0

4.2 Plan-enabled, infrastructure-ready and suitable business land

The following sections look at, of that development capacity, the development capacity that is:

- plan-enabled[40]; and
- plan-enabled and infrastructure-ready; and [41]
- plan-enabled, infrastructure-ready, and suitable for each business sector.

Plan-enabled business land has different meanings across the short, medium, and long terms in the Policy Statement. Business land in the short term is plan-enabled if it is zoned for business use in an operative district plan. In the medium term, business land is plan-enabled if it is either zoned in an operative plan or a proposed district plan. In the long term, business land is plan-enabled if the land is identified for future use in a Future Development Strategy.

To be considered zoned for business land, it must be a permitted, controlled, or restricted discretionary activity on that land.

[41] See clause 3.4 of the Policy Statement for the meaning of plan-enabled and infrastructure-ready.

Infrastructure-ready has different meanings across the short, medium, and long terms under the Policy Statement. To be infrastructure-ready in the short term, there must be adequate existing development infrastructure [42]to support the development of the land. To be infrastructure-ready in the medium term, it must either have adequate existing development infrastructure to support development or funding for adequate development infrastructure is identified in a Long Term Plan. To be infrastructure-ready in the long term, it must either meet the medium term requirement, or the development infrastructure must be identified in our infrastructure strategy (required as part of its Long Term Plan).

4.2.1 Plan-enabled development capacity

We have reviewed our District Plan and current strategic growth direction to determine plan-enabled development capacity in the short, medium and long terms. The table below shows our plan-enabled development capacity.

Table 35 Plan-enabled business land development capacity

Business land location	Hectares	Short term plan-enabled *The land is zoned for business use in the operative District Plan*	Medium term plan-enabled *The land is zoned for business use in a proposed District Plan change*	Long Term Plan-enabled *The land is identified in a Future Development Strategy*
Inner Business Zone	31.6	31.6		
Outer Business Zone	80	80		
Fringe Business Zone	19.6	19.6		
Local Business Zone	26.1	21.3	1.5	3.3
Airport Zone	12.9	12.9		
Industrial Zone	370	370		
North East Industrial Zone	188.6	188.6		
Te Utanganui	288			288
Total	1,016.8	724	1.5	291.3

[42] Development infrastructure is roading, water supply, wastewater and stormwater infrastructure that is controlled by us.

As part of Proposed Plan Change G: Aokautere Urban Growth Area, 0.79 hectares of Local Business Zone is proposed. 3.34 hectares of Local Business Zone is proposed as part of the Kākātangiata Urban Growth Area hence why there is Local Business Zone identified in the medium and long terms in Table 35 above.

The hearing for the Aokautere plan change is scheduled for December 2023, if approved, the 1.5 hectares of Local Business Zone would move to plan-enabled in the short term. Based on expected notification dates for the Kākātangiata residential plan change, we would expect that the 3.3 hectares of Local Business Zone in the long term, would move to plan-enabled in the medium term.

The Airport Zone totals 213.5 hectares; however, the majority of this is exclusively used for airport operations or designated for runway protection and expansion, hence why 12.9 hectares is identified as plan-enabled rather than 213.5 hectares in Table 35 above.

For the industrial-zoned land in the city, there is a further 33.5 hectares of industrial-zoned land – the Braeburn Industrial Area. However, in the District Plan, this land is restricted to dairy-related industries only. Any other industrial or business use is classified in our District Plan as a non-complying activity; hence, we have removed this land from our plan-enabled, infrastructure-ready, and suitable for business sector assessments.

On a similar note, there is a further 35 hectares of land zoned North East Industrial Zone; however, it is designated by KiwiRail for the Regional Freight Hub and will not be available for commercial use. We have removed this land from our plan-enabled, infrastructure-ready, and suitable for business sector assessments on this basis.

Although Te Utanganui is Long Term Plan-enabled, the rezoning will occur in three stages, with the first 26 hectares to begin the rezoning process in 2024, the next 150 hectares will be plan-enabled in 2032, and the final 112 hectares to coincide with the opening of the KiwiRail Regional Freight Hub, in 2052.

4.2.2 Infrastructure-ready development capacity

Table 36 Infrastructure-ready development capacity

Business Land Location	Hectares	Short term Infrastructure-ready *There is adequate existing development infrastructure to support the development of the land.*	Medium term Infrastructure-ready *Meets short term requirement or funding for adequate development infrastructure is in the Long Term Plan*	Long term Infrastructure-ready *Meets medium term requirement or adequate development infrastructure is in the Infrastructure Strategy*
Inner Business Zone	31.6	31.6		
Outer Business Zone	80	80		
Fringe Business Zone	19.6	19.6		
Local Business Zone	26.1	21.3	1.5	3.3
Airport Zone	12.9	12.9		
Industrial Zone	370	355.3	14.7	
North East Industrial Zone	188.6	110.4	78.2	
Te Utanganui	288			288
Total	1,016.8	631.1	94.4	291.3

For the 3.3 hectares of Local Business Zone proposed for Kākātangiata, we would expect approximately 2.23 hectares of that to be infrastructure ready in the medium term as the southern and eastern local business areas are staged in, with the remaining 1.1 hectares being infrastructure ready in the long term as the eastern and northern local business areas get developed.

Given that the North East Industrial Zone is a greenfield industrial zone area, infrastructure readiness varies across the zone. 52.7 hectares is infrastructure-ready in the short term, i.e. there is adequate existing development infrastructure to support the development of the land. The remaining 78.2 hectares is infrastructure-ready in the medium term, i.e. funding for adequate development infrastructure to support the development of the land is identified in a Long Term Plan. Development infrastructure will be delivered when subdivision or development occurs on these sites.

Although Te Utanganui is long term infrastructure-ready, the rezoning will occur in three stages, with the first 26 hectares to begin the rezoning process in 2024 and infrastructure readiness expected by 2025/26. The next 150 hectares will be infrastructure-ready in 2032, and the final 112 hectares will coincide with the opening of the KiwiRail Regional Freight Hub in 2052.

4.2.3 Suitable land for each business sector development capacity

To determine suitability, we have looked at the locations where business sectors are currently located within our District Plan zones. We have done this because we can observe a clear relationship between where the business sectors are located and the different District Plan zones in the city. For example, 94% of small & medium industrial businesses are located in the Airport and Industrial zones and 6% in the North East Industrial Zone. For commercial office sector businesses, 90% are in the business zones, and 10% are in the airport and industrial zones.

To project where the demand from each sector is likely to be taken up in each zone, we have taken the projected allocation of sectors to commercial zones and broken these allocations across each District Plan zone using the observed uptake of each zone currently. For instance, we expect 95% of future demand for small and medium industrial businesses to be taken up in the Airport and Industrial Zone, and of this 95%, 1% is likely to be located in the Airport Zone, 94% in the Industrial Zone and 5% in the North East Industrial Zone (and Te Utanganui, which when rezoned will be zoned North East Industrial Zone).

Further, our strategic land use planning and existing (and signalled future) land use patterns reinforce these relationships. For example, the North East Industrial Zone (and Te Utanganui, when rezoned) reinforce that large floor plate industrial sector businesses are well suited to locate in these zones due to both land use patterns – the proximity of the zone to the Palmerston North Airport, future KiwiRail Freight Hub and Regional Freight Ring Road – and the District Plan approach to enable large sites within the zone.

Hence, of the plan-enabled and infrastructure-ready land that we identified in the sections above, we have assessed suitability for each business sector to District Plan zones as follows:

Table 37 Zones suitability for each business sector

	Inner Business Zone	Outer Business Zone	Fringe Business Zone	Local Business Zone	Airport Zone	Industrial Zone	North East Industrial Zone/Te Utanganui
Small & medium industrial					1%	94%	5%
Large floor plate industrial							100%
Accommodation	45%	50%		5%			
Small & medium retail (pedestrian-oriented retail)	38%	38%	2%	12%		10%	
Large format retail (vehicle-oriented retail)	34%	36%	11%	9%		10%	
Commercial office	37%	51%	1%	1%		10%	
Commercial services	2%	48%	21%	5%		25%	

4.3 Summary – business land development capacity assessment

Based on our plan-enabled, infrastructure-ready and suitability assessments of the 1,012.8 hectares of plan-enabled business land, we have:

- A total of 631.1 hectares of plan-enabled and infrastructure-ready business land in the short term
- A total of 94.4 hectares of plan-enabled and infrastructure-ready business land in the medium term
- A total of 291.3 hectares of plan-enabled and infrastructure-ready business land in the long term

The above land is considered suitable for business sectors in all terms, but in certain percentage allocations to District Plan zones due to the relationship between zones and particular business sectors.

5. Business Land Sufficient Development Capacity Assessment

Finally, for the business portion of our Housing and Business Development Capacity Assessment, clause 3.30 of the Policy Statement requires us to assess whether we have sufficient development capacity for business land. The requirements for this assessment are:

- Clearly identifying, for the short term, medium term, and long term, whether there is sufficient development capacity to meet the demand for business land based on a comparison of:
    - the projected demand for business land plus the appropriate competitiveness margin (estimated in section 3); and
    - the identified land supply (assessed in section 4).

If there is any insufficiency, the Policy Statement requires us to identify where and when this will occur and analyse the extent to which planning documents made under the Act, a lack of development infrastructure, or both cause or contribute to the insufficiency.

5.1 Sufficient development capacity assessment

To determine sufficient development capacity, the additional business sector demand, with competitiveness margins added, and the amount of plan-enabled, infrastructure-ready, and suitable business land were compared. This comparison was done across the short, medium, and long term, as shown in Figures 41 – 43 below.

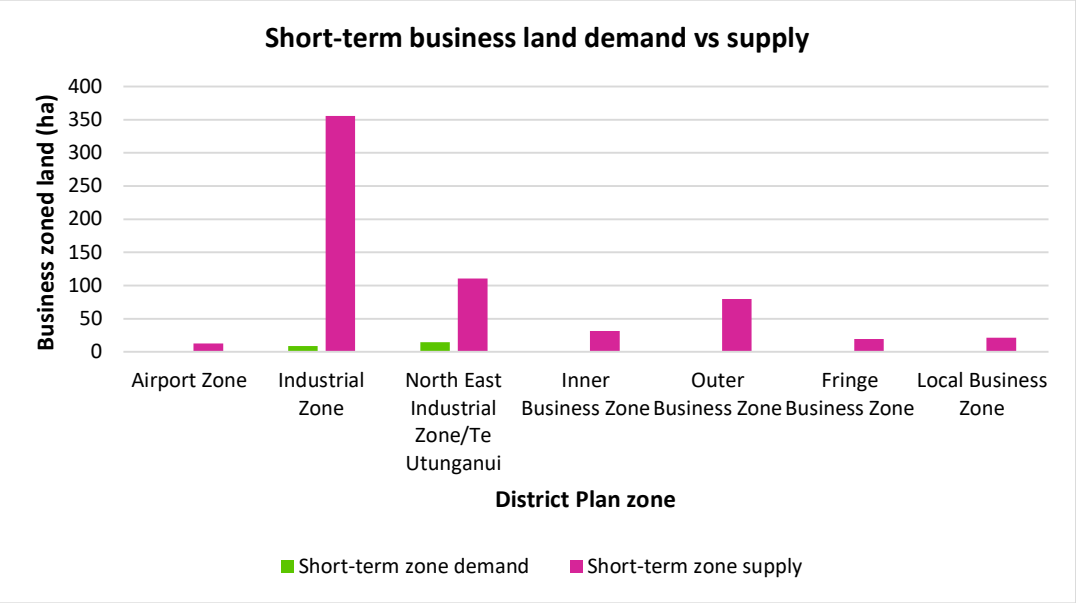


Figure 41 Short term sufficiency assessment

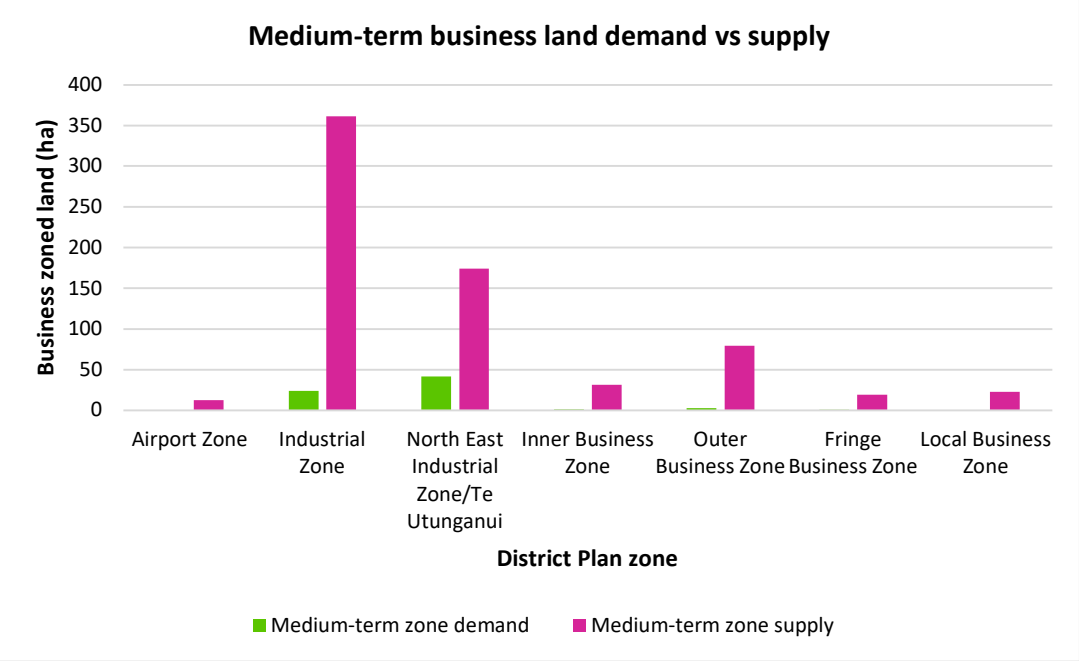


Figure 42 Medium term sufficiency assessment

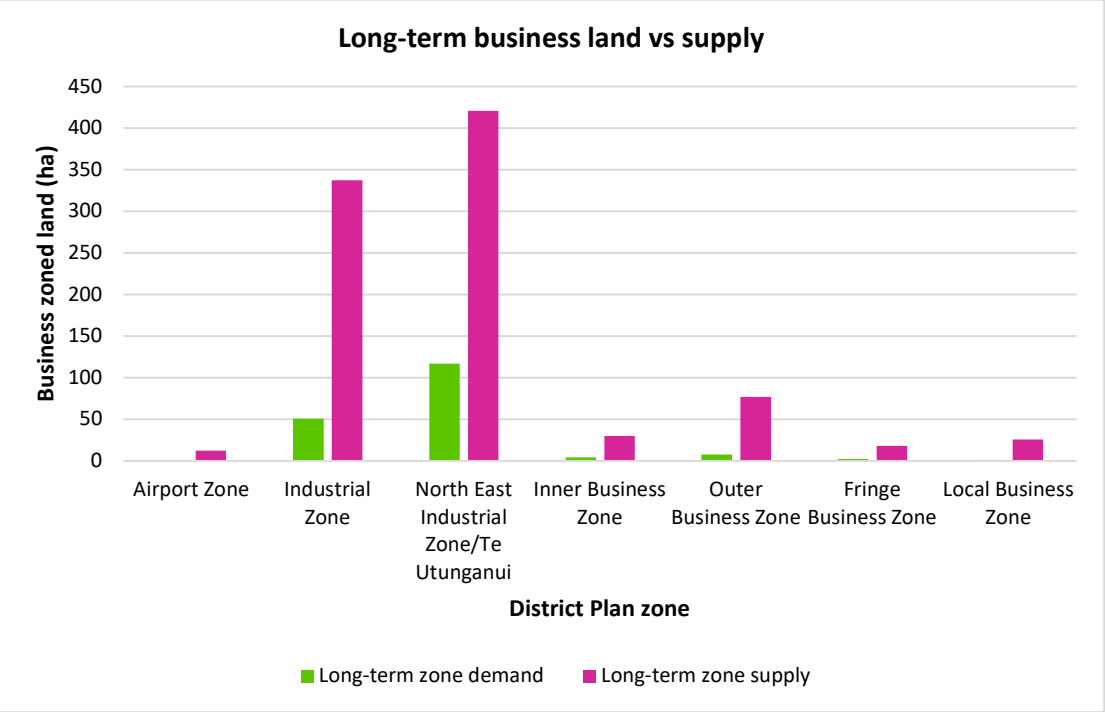


Figure 43 Long term sufficiency assessment

Based on the comparison above, we have sufficient development capacity.

We have also calculated our vacant land[43] in the business and industrial zones and allocated the demand (plus competitiveness margins) from each sector (at a percentage rate given there's a relationship between where business sectors are located) to the zones to see whether our existing vacant land supply would meet demand.

We assumed the following percentage rates of business sector demand for the zones as follows:

[43] Vacant commercial zoned land is defined as any commercially zoned land parcel containing no significant occupied or vacant commercial buildings. Vacant commercial zoned land parcels include:

- Vacant land parcels used as car parks within business zones
- Occupied land in industrial and business zones used for storage that is not associated with a business such as a car yard or car rental agency
- Residential or rural rated properties within commercial zones
- Land under construction, including completed properties without floor areas in the DVR
- Vacant land within commercial zones

Table 38 Estimated business sector demand rate across our District Plan zones

Property type	Airport & industrial zones	North East Industrial Zone	Business zones
Small & medium industrial	95%	5%	0%
Large floor plate industrial	0%	100%	0%
Accommodation	0%	0%	100%
Small & medium retail (pedestrian-oriented retail)	10%	0%	90%
Large format retail (vehicle-oriented retail)	10%	0%	90%
Commercial office	10%	0%	90%
Commercial services	25%	0%	75%

In doing so, we found:

- The 66.4 hectares of airport and industrial land that is zoned and available for development will be sufficient to accommodate future demand from small and medium industrial and retail, large format retail, commercial office and commercial service business sectors in the short, medium and long term.
- The 145.9 hectares of North East Industrial Zone land that is zoned and available for development will be sufficient to accommodate future demand from small and medium industrial and large floor plate industrial demand in the short, medium, and long term.
- The 19 hectares of business-zoned land (Inner Business, Outer Business, Fringe, and Local) that is available for development will be sufficient to accommodate future demand from accommodation, small and medium retail, large format retail, commercial office and commercial services business sectors in the short, medium and long term.

However, this relies on more intensive development and the vacant sites being of suitable size to meet the projected demand of the business sector.

5.2 Summary – business land sufficient development capacity assessment

Based on comparing our demand from business sectors and business land available across the short, medium and long terms. We have sufficient development capacity to meet demand over the next 30 years.

6. Risks to Business Land Supply

There are a couple of issues worth noting in relation to the supply of our business and industrial land and meeting demand.

Land ownership rates

A few landowners own a large proportion of business land in the district. In 2019, when we looked at the Council's rates database, it showed two landowners holding a 57% share of vacant commercial and industrial land in the district. This may affect the availability of land for development and may have an impact on the cost of land if developers delay the release of land to the market. It may also result in a perception of scarcity.

We recommend that this be further investigated in any rating reviews.

Rezoning of industrial use for housing

Rezoning of pockets of industrial land within the city to residential will remove industrial land supply, which will either drive intensification in the industrial zones or result in scarcity of supply. This will need to be monitored over time and assessed as part of our District Plan changes to rezone land to residential, given that we have obligations to have sufficient development capacity not only for housing but also for business land.

The 33.5 hectares Braeburn Industrial Area presents an opportunity for general industrial land use if the undeveloped land is not required for dairy factory expansion. Changing the District Plan rules to permit this may be an option if further land supply is needed because of residential rezonings in the city. The land available at KiwiRail's Tremaine Avenue rail yards, following the departure of the yards to the KiwiRail Freight Hub by 2032, also presents another opportunity for increasing industrial land in the city and maybe another option.

Developing and redeveloping business land at the same or lower intensities

There are several Grade B and C buildings in our business and industrial zones, which demonstrate higher vacancy rates than their counterpart Grade A buildings, which we built post-2000s. Grade B buildings' ages are between 23 and 63 years old. Grade C buildings were built before the 1960s, so they are now 63 years and over. These will likely be redeveloped over the next 30 years, and if not redeveloped more intensively, this will be a lost opportunity to meet demand with less land.

We have seen this occur in the Inner Business Zone, where redevelopments have either resulted in the same or lesser commercial footprint than before the building was redeveloped.

In a similar vein, land that is currently vacant will likely be developed to meet the demand of the business sectors over the next 30 years. If not developed at a more intensive rate than we have seen in the past, this will be a lost opportunity to meet demand but use less land to do so.

However, we expect business sectors to develop and redevelop their land more intensively than they have done in the past due to higher land prices and better building methods; we recommend we support this by offering urban design support to developers and landowners whose sites are yet to be developed or where the building grade signals the need to redevelop.

When we review the business and industrial sections of the District Plan, we should also look at whether our planning rules are fit for supporting more intensive development and redevelopment.

7. Conclusion – Business DevelopmentCapacity Assessment

This part of the Assessment contains our business land development capacity assessment. We have estimated demand from business sectors over the next 30 years, looked at our business land supply over the next 30 years and compared these to determine whether we will have enough land to meet demand.

To estimate demand, we have assumed that business sectors' floor area and population are linked. We have projected demand for floor area from business sectors in the district across the short, medium and long terms based on projected population growth. We converted this floor area demand into a land area based on current and future floor area to land requirements. Based on these demand estimates, and when competitiveness margins are added, we estimate demand for business floor area and land from each sector as follows:

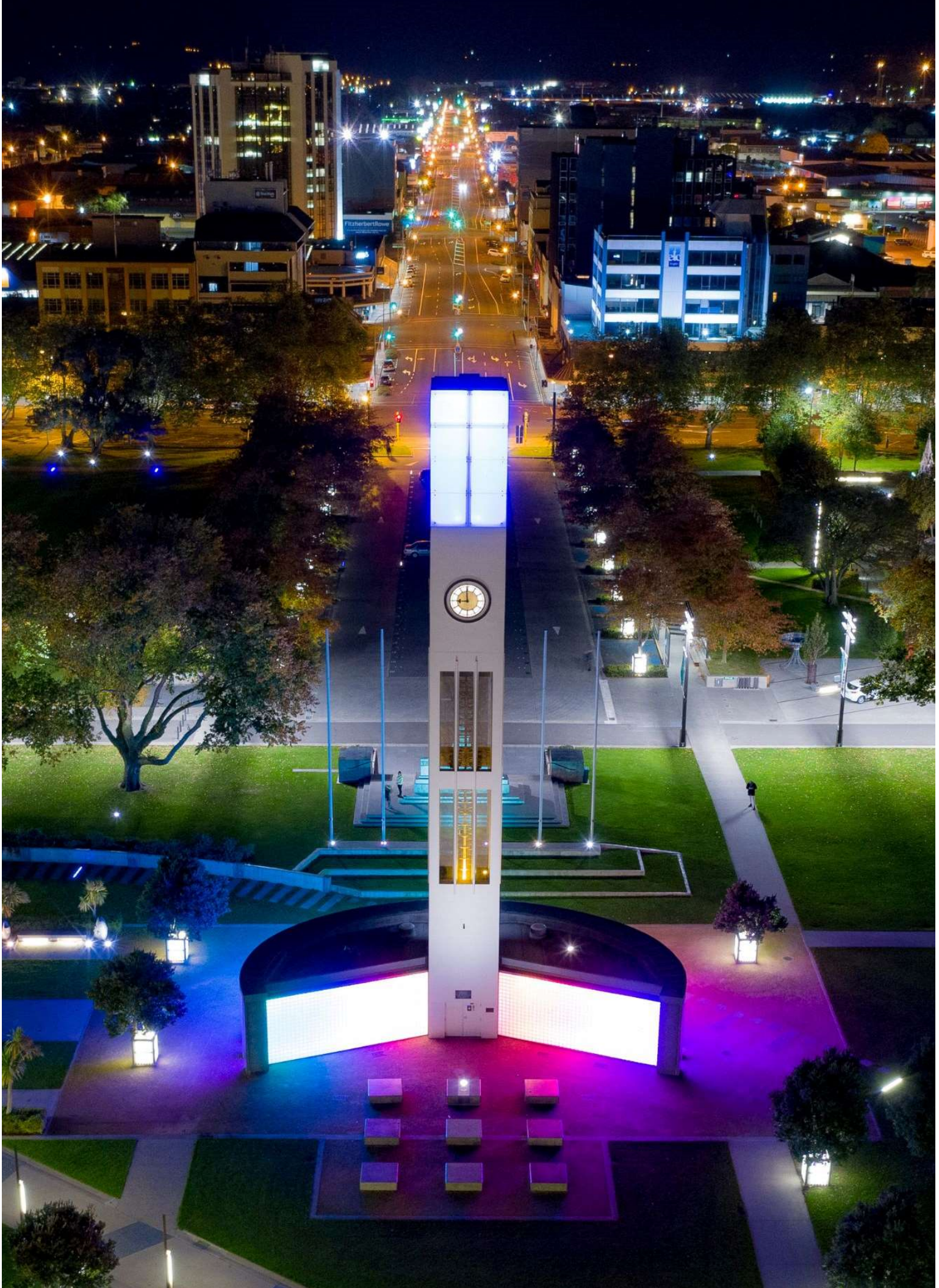
Table 39 Estimated demand for business floor area and land over the short, medium and long term

Business Sector	Short term		Medium term		Long term		30 Year Total	
	Floor area (m^2)	*Land area (ha)*	*Floor Area (m^2)*	*Land area (ha)*	*Floor area (m^2)*	*Land area (ha)*	*Floor area (m^2)*	*Land area (ha)*
Small & medium industrial	34,264	9.1	95,527	24.5	216,481	50.8	346,271	84.4
Large floor plate industrial	59,688	13.9	177,430	40.7	515,959	114.7	753,077	169.3
Accommodation	0	0.0	4,566	0.4	15,984	1.2	20,550	1.5
Small & medium retail (pedestrian-oriented retail)	0	0.0	-	0.0	43,856	3.8	43,856	3.8
Large format retail (vehicle-oriented retail)	3,540	0.6	13,427	2.4	33,030	5.5	49,997	8.5
Commercial office	0	0.0	71	0.0	32,984	0.7	33,055	0.7
Commercial services	4,181	0.8	16,079	3.2	39,672	7.4	59,931	11.4
Total	101,672	24.5	307,099	71.2	897,966	184.0	1,306,738	279.6

We have looked at our business land supply in the district. Of that land supply, we determined what is plan-enabled, infrastructure-ready, and suitable for each business sector across the short, medium, and long term. We have a total of 1,016.8 hectares of plan-enabled business land in the district. Of that plan-enabled land, 631.1 hectares in the short term, 94.4 hectares in the medium term, and 291.3 hectares in the long term is plan-enabled and infrastructure-ready. In terms of suitability of this land, particular District Plan zones are suitable for different business sectors. We have therefore described suitability as certain percentages across zones for different business sectors.

Based on comparing our demand assessment and looking at our business land supply that is plan-enabled, infrastructure-ready and suitable for each business sector, we have undertaken a sufficiency assessment to see whether our business land supply can meet estimated demand. Based on this comparison, we have found we have sufficient business land across all terms.

There are a few risks to our business land supply, including high ownership rates, rezoning of industrial land to residential use, and redevelopment of sites and development of vacant sites occurring at low intensity, which we have made recommendations on. For high ownership rates, we recommend that in any future rating reviews, we investigate how slow release of land can be discouraged. For industrial land being rezoned, we will need to assess the risk as part of the plan change process and, if needed, investigate industrial land opportunities that are present in the district. For redevelopment and development not occurring at greater intensities, we recommend offering support to achieve greater development and redevelopment intensities. When we come to review our industrial and business zone sections of the District Plan, we should also ensure our planning rules are allowing intensification.



Conclusion

This Assessment is our three-yearly Housing and Business Development Capacity Assessment. It is a requirement under the Policy Statement and has information about our housing and business land demand across the next 30 years within our district. This Assessment can be used to inform our planning documents (made under the Act), Future Development Strategy and Long Term Plans.

We have estimated the demand for housing and business land, plus competitiveness margins, required to support choice and competitiveness in housing and business land markets. We have also identified whether our existing and future housing and business development capacity is sufficient to meet this demand.

We have found for housing

- Over the short, medium, and long terms, we estimate we will need 983, 3,010 and 5,891 homes to meet demand.
- Over the short, medium, and long terms, we estimate there will be demand for houses in infill, greenfield and rural/rural-residential locations and for both standalone and attached housing.
- We have sufficient housing land that is plan-enabled, infrastructure-ready, commercially feasible and likely to be realised. In the short term, delivering development infrastructure will be critical and residential rezonings of greenfield areas will be too.

We recommend the following for housing

- That future residential growth areas and rezoning of them to meet demand in the short, medium, and long term are identified in the Future Development Strategy and progressed on time. If not, we will not have enough housing to meet demand.
- That development infrastructure is signalled (where appropriate) and provided on time to meet demand, particularly in identified areas in the short term. If not, we will not have enough greenfield housing supply to meet demand.
- That we are satisfied that additional development infrastructure is likely to be available to meet demand over the next 30 years through continuing engagement with additional infrastructure providers.
- That different housing types, including attached housing and papakāinga, are provided for through further consenting process support and the activity statuses for multi-unit housing papakāinga being reconsidered.

- We support and encourage the residential construction sector to deliver housing and different housing types to meet demand, including through pre-application and resource consenting support and raising awareness of what our District Plan enables and the outcomes it seeks.
- That residential intensification is supported to make efficient use of our housing land and to ensure our greenfield residential areas last longer.
- Our existing growth planning is captured in our Future Development Strategy, so it is not lost as a result of new planning instruments introduced through planning reform.

For business land, we have found

- Over the short, medium, and long terms, we estimate that we will need 24.5, 71.2 and 184 hectares of business land to meet demand (this includes competitiveness margins). The small and medium industrial and large floor plate industrial are the sectors where demand will grow the most.
- We have 631.1 hectares of plan-enabled, infrastructure-ready, and suitable business land in the short term and 291.3 additional hectares identified in the long term.
- We have sufficient business land to meet estimated demand, particularly because land is projected to be developed more intensively over time, and our District Plan zones cater for the full range of business sector types.
- When we looked at our vacant land within our business and industrial zones and the projected demand, we found that demand can be accommodated in the zones, but this assumes the vacant sites are suitable for the projected demand of the business sector.

We recommend the following for our business land supply

- A few landowners own a large proportion of business land in the district. This is a risk for land baking, which may affect the availability and cost of land for development. It may also result in a perception of scarcity.

  We recommend that this be further investigated in any rating reviews.

- Rezoning pockets of industrial land within the city to residential will remove industrial land supply, which will either drive intensification in the industrial zones or risk a scarcity of supply.

  The impact of removing business land for other land use, such as housing, will need to be assessed when proposing a District Plan Change. The 33.5 hectares Braeburn Industrial Area presents an opportunity for general industrial land use if the undeveloped land is not required for dairy factory expansion. Changing the District Plan rules to permit this may be an option for other industrial land use if further land supply is needed because of residential rezonings in the city.

- We are expecting business sectors to develop and redevelop their land more intensively than they have been in the past due to higher land prices and better building methods.

  We recommend that we support this by offering urban design support to developers and landowners whose sites are yet to be developed or where the building grade signals the need to redevelop. When we review the business and industrial sections of the District Plan, we should assess whether our planning rules are fit for supporting more intensive development and redevelopment.

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Our Economic Overview

Our local economy has proven resilient throughout the disruption created by COVID-19 and restrictions on economic activity. While economic growth has exceeded all expectations compared to the rest of New Zealand, the population growth needed to drive future economic activity has weakened. We anticipate that the population will grow in response to strong labour demand over the next decade due to the $8 billion of investment planned for the city and wider region out to 2035. This labour demand will be supported by net international migration rebounding to pre-pandemic levels.

High investment into the region has offset the population impacts of border closures

While population growth has been suppressed due to border closures in place in response to COVID-19, high demand for labour in Palmerston North is expected to drive population growth to 2035, as unprecedented investment flows into the city and wider region.

Population growth has been less robust due to the impact of border closures from 2020-22. While Palmerston North was less exposed to the impacts on international tourism, the city's international education, health and professional services sectors suffered from the inability to attract foreign nationals. The flow of new residents was also impacted as border closures prevented the resettlement of refugees into the city.

The city has had stronger economic growth than the national average

Palmerston North has experienced a period of strong economic growth over the five years to December 2022, with Gross Domestic Product increasing by 21.5%, compared with 17.8% nationally. Strong public sector activity, elevated construction investment and substantial growth in high-value services have driven economic activity over the period.

The city has had high wage and employment growth

High inflation, tight labour market conditions and strong wage growth have been prominent features of the New Zealand economy since late 2020. Labour market conditions in the city mirror this trend, with the number of jobs in Palmerston North up by 1,071 over the year to December 2022. This is a 2.3% increase compared with the previous year. Earnings increased by 5.5% over the same period, with provisional data for the March quarter of 2023 indicating a strengthening of annual earnings growth of 8.5% over the year. High employment and earnings growth have supported the core spending of households in this time of rapidly rising costs.

Unemployment levels remain the same as national levels

Unemployment figures and jobseeker benefit trends for the city reflect the tight labour market conditions. The unemployment rate for Palmerston North has remained equal to or below the national unemployment rate since the September quarter of 2020. Jobseeker benefit numbers in Palmerston North are bucking the national trend, falling below pre-pandemic numbers in March 2023, compared with an 11% increase in job seekers nationally. The unemployment rate for the city in December 2022 was 3.2% compared with 3.3% nationally.

Household spending is on par with the rest of the country

Growth in retail spending in the city kept pace with inflation over the year to December 2022, with spending increasing by 7.3% compared to an annual inflation rate of 7.2%. While spending on essential household items has increased, discretionary spending on big-ticket and discretionary items such as cars and motorbikes and home and recreation have pulled back sharply as rising costs and increasing mortgage interest rates flow through to household disposable incomes.

City tourism is growing

A rebound in tourism activity is supporting economic activity in the city, with spending up 7% over the year to December 2022. This compares with an 18.9% increase nationally. Greater percentage growth at the national level is expected as areas with greater dependence on international tourism rebound from border closures in 2021. The latest data indicates continued strengthening of tourism activity in the city, with spending up 13.1% in Palmerston North over the year to March 2023.

Palmerston North has had strong GDP growth post-pandemic

The annual Gross Domestic Product[1] (GDP) of Palmerston North (Infometrics provisional estimate) for December 2022 was $6,321. This represents an increase of 2.6%, exceeding national growth of 2.4% over the same year. Figure 1 illustrates economic growth in Palmerston North compared with national economic growth[2] to December 2022.

[1] Gross Domestic Product (GDP) is an estimate of the final value of goods and services produced in an area. To avoid double counting, GDP excludes the value of intermediate goods used within the production process and is indexed for inflation to reflect the real value of economic activity.

[2] Infometrics estimate for New Zealand GDP

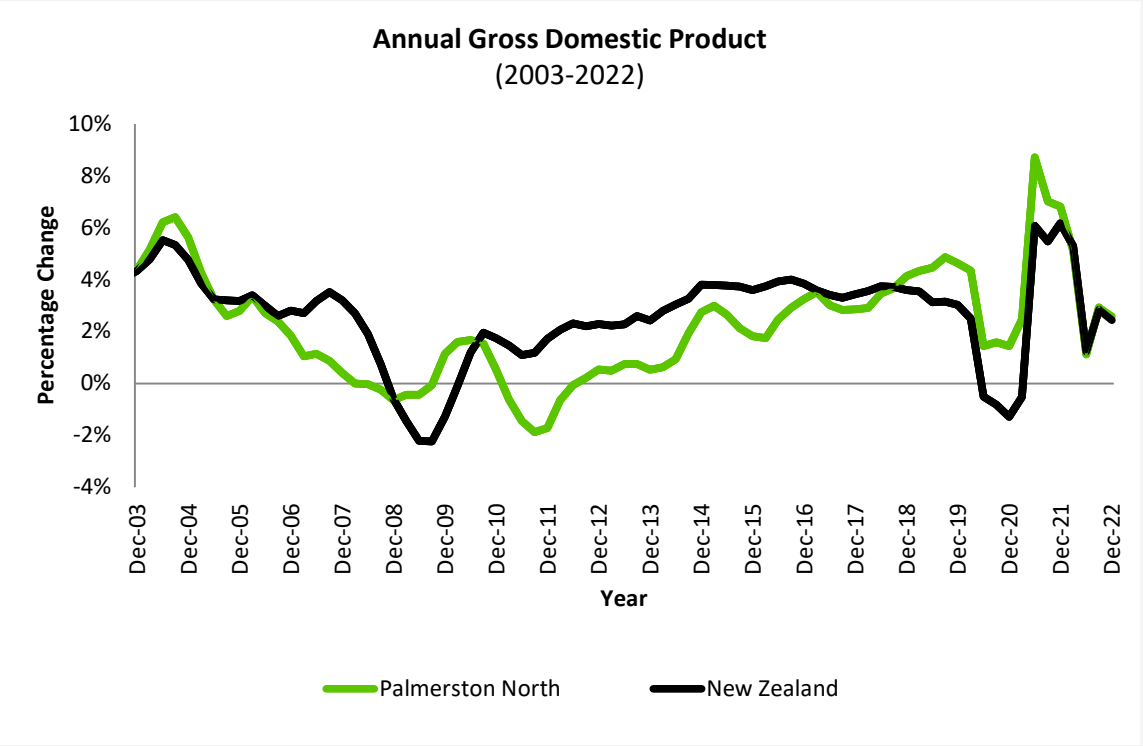

Figure 1 Annual GDP of Palmerston North and New Zealand [3]

The Palmerston North economy has benefited from the mix of public and private sector activity over the COVID-19 period. This mix of industries has buffered the city from the impacts observed in areas of the country with greater exposure to border closures and lockdown restrictions. The structure of the economy has supported economic activity in the city, with Gross Domestic Product growing by 21.5% over the five years to December 2022, compared with 17.8% nationally.

Our economic sectors

The local economy is dominated by service sector activity, which contributed 59.4% of Gross Domestic Product in 2022. This is followed by a large and diverse government, education and health sector at 32.5%. The manufacturing sector and primary production sector contributed 5.9% and 2.2%, respectively. Figure 2 below shows this economic structure, and Figure 3 shows the proportion of GDP growth by sector.

[3] Source: Infometrics, QEM March 2022

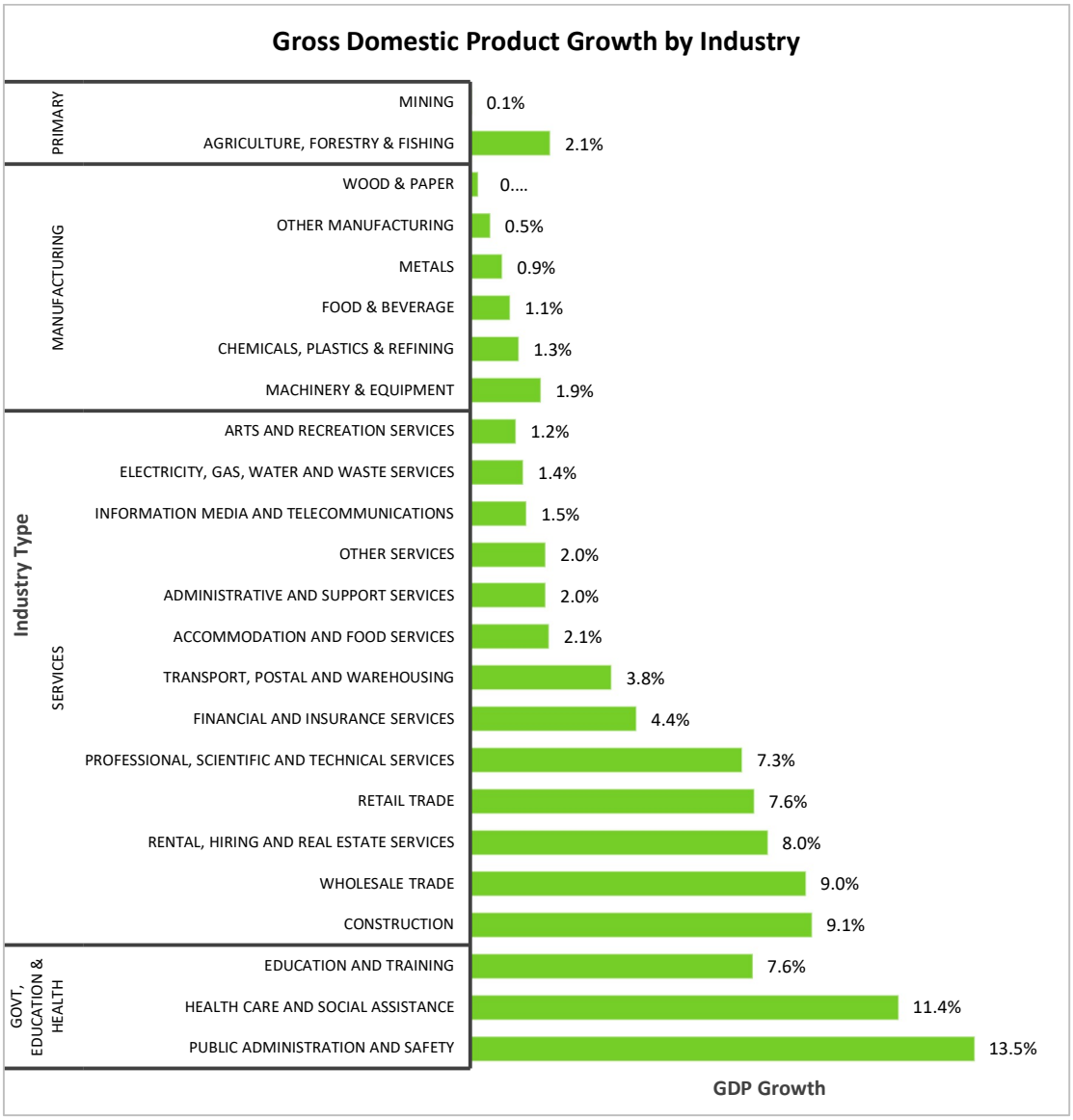

Figure 2 Economic structure by GDP (year ended March 2022)

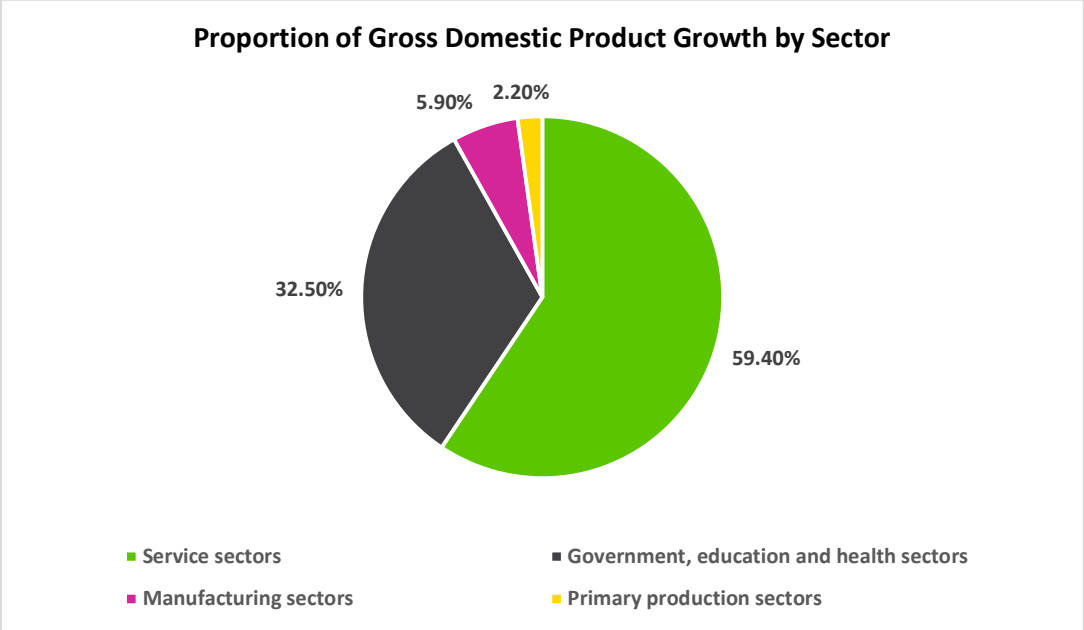

Figure 3 Proportion of GDP by sector (year ended March 2022)

Professional services and construction sectors have contributed the most to growth

The Palmerston North economy grew by $300.2 million (5.1%) over the year to March 2022. Some of our largest sectors saw a dip in economic activity due to factors outside of the city's control. Public administration and safety sector Gross Domestic Product contracted by $7 million, driven by a fall in central government administration activity and a reduction in employment in the defence force. GDP in education and training fell by $4 million due to reduced international student enrolments. Figure 4 below provides the breakdown by sector of the change in annual GDP for the period ending March 2022.

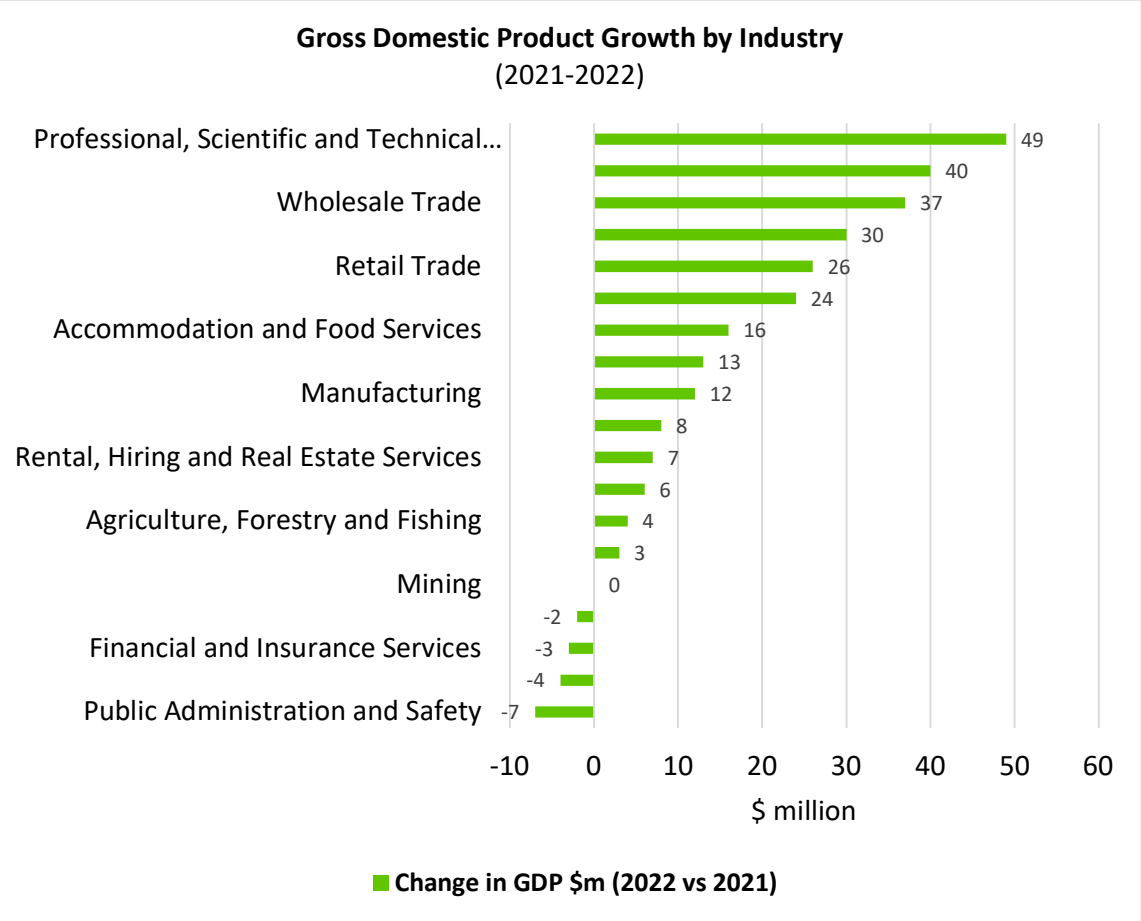

Figure 4 Growth in Gross Domestic Product for Industry 2021 to 2022

Table 1 below provides details of the top five growth sectors in the city in 2022.

Table 1 Top-five growth industries by GDP

	Industry	One-year growth	10-year growth	20-year growth
1	**Professional, scientific & technical services**	+$49.3m +14.9%	+$102m +36.8%	+$133m +54.0%
	Professional, scientific & technical services contributed $379.4m to the Palmerston North economy in the March year 2022. Scientific research services were the highest growth subsector, up by $14.3m (+17.0%) annually and $23.5m (+31.4%) over the 20 years to 2022.			
2	**Construction**	+$40.0m +9.2%	+$170.7m +55.8%	+$253.8m +113.8%
	The construction sector contributed $263.3m to the local economy in March 2022. The construction services subsector (which includes construction trades) was the highest-growing subsector, expanding by $27.9m (+14.7%) over the year			
3	**Wholesale trade**	+$37.5m +8.7%	+$131.4m +39.0%	+$213.4m +83.7%
	Wholesale trade generated $468.4m in GDP for the city in 2022. The grocery, car, electronic and electrical goods, hardware goods, and professional and scientific goods wholesaling were the largest growth subsectors, contributing $23.1m (61.6%) of GDP growth over the year.			

4	**Health care and social assistance**	+$29.8m +5.3%	+$169.5m +39.6%	+$293.6m +96.7%
	Health care and social assistance contributed $597.2m to GDP in the March year 2022. Hospitals were the highest growth subsector, expanding by $14.2m (+8.7%). It contributed $177.1m to GDP.			
5	**Retail trade**	+26.1m +7.1%	+115.1m +40.9%	+$194.6m +96.5%
	Retail trade contributed $396.2m to the city's GDP over the March year. Supermarkets and grocery stores are the largest subsectors, adding $83.5m to the city's GDP. They were the second largest growth sector in 2022, expanding by $3.6m (+4.5%). The hardware and building supply retail sector posted the highest growth, up by $5.2m (+14.6%).			

As for the Palmerston North Labour Market, employment in the city and nationally continues to sit near record highs

The total employee count in Palmerston North in March 2022 was 56,955, an increase of 3.7% compared to pre-pandemic March 2020. This compares to a national increase of 3% over the same period. Over the year to March 2022, the number of jobs nationally grew at a very strong 3.3% due to the recovery of areas of New Zealand hit harder by the impacts of COVID-19. Over the same period, the number of employees in Palmerston North increased by 1,215 (+2.2%). Employment levels, both nationally and in Palmerston North, continue to sit near record highs.

The employment structure across the city is largely consistent with the GDP structure. The proportion of employment by sector area is as follows:

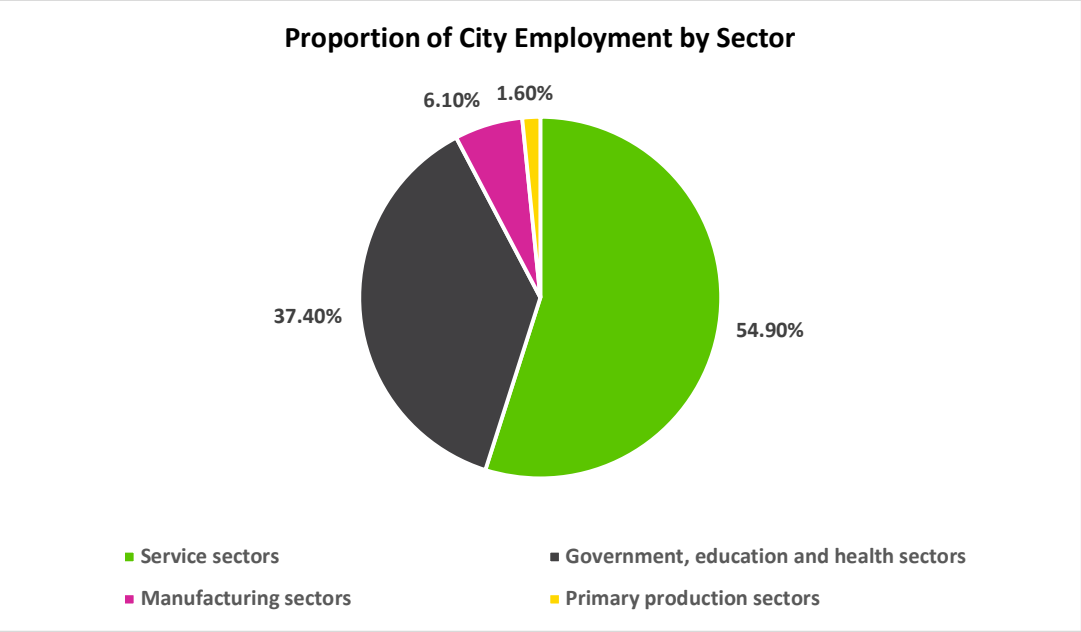

Figure 5 Proportion of city employment by sector by 2022

Figure 6 illustrates the structure of the Palmerston North economy by employment over the year to March 2022.

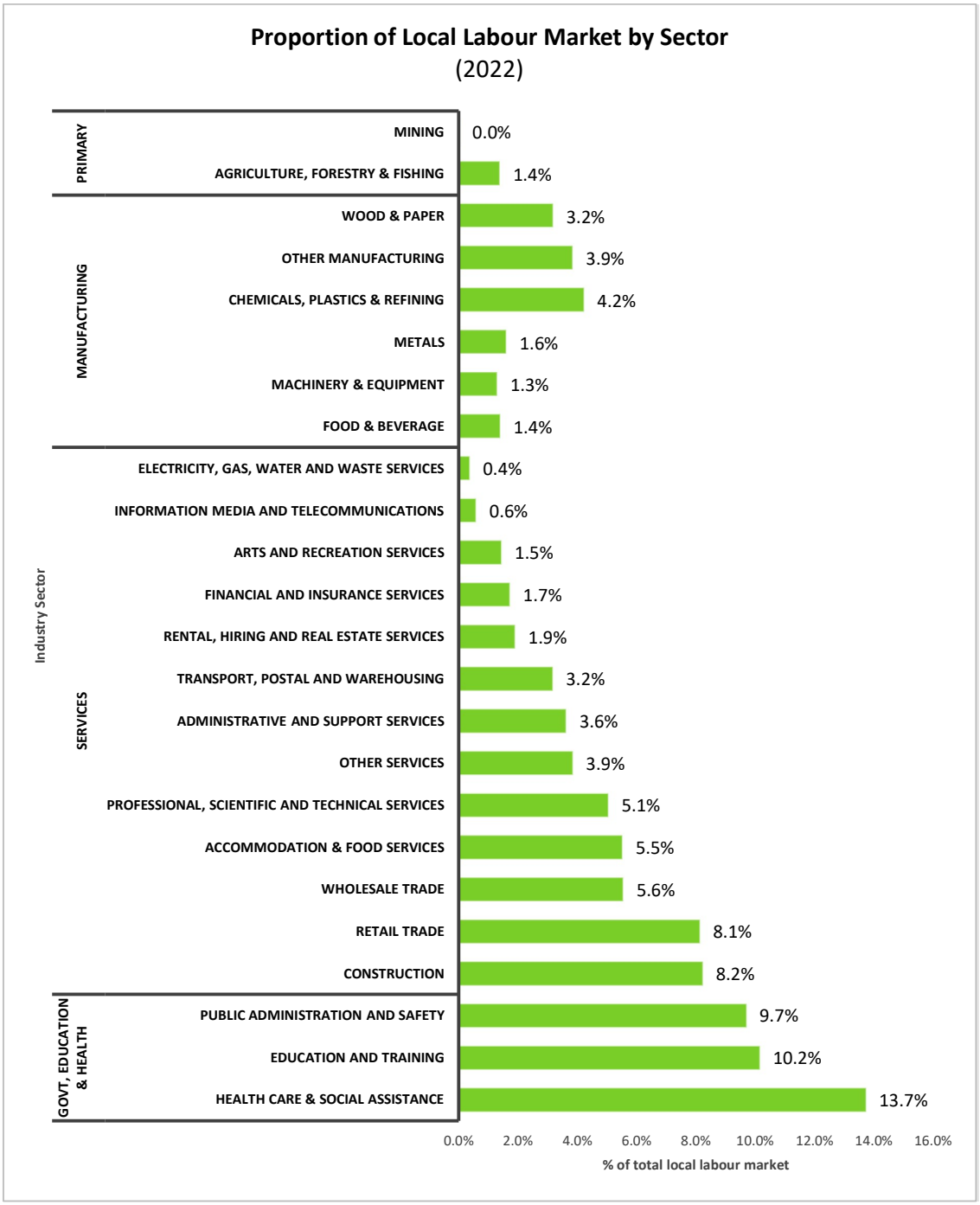

Figure 6 Palmerston North employment structure by sector (year ended March 2022)

Employment trends

The construction sector recorded the largest increase in jobs between 2021 and 2022 at 7.5% growth, followed by the electricity, gas, water and waste services sector (6.5%) and the accommodation and food services (6.0%). The construction sector recorded the largest increase in jobs between 2020 and 2022 at 15.6% growth, followed by the financial and insurance services sector (11.4%) and the accommodation and food services (11.1%). Job growth by sector between 2000 and 2022 is detailed in Table 2 below.

The biggest contributor to job growth between 2000 and 2022 was the healthcare and social assistance sector, with an additional 3,849 jobs between 2000 and 2022. The second largest growth came from the public administration and safety sector as the result of the expansion of the Linton Army Base.

Table 2 Change in employee counts: Palmerston North statistical areas (2000-2022)

	Palmerston North			New Zealand		
	Employee count	2000-2022 change		Employee count	2000-2022 change	
Industry Sector[4]	2022	Number	%	2022	Number	%
Accommodation and Food Services	3,509	1,049	43%	169,340	67,102	66%
Administrative and Support Services	2,307	469	26%	130,578	49,345	61%
Agriculture, Forestry and Fishing	887	-674	-43%	146,644	2,308	2%
Arts and Recreation Services	923	149	19%	48,742	20,765	74%
Construction	5,225	2,620	101%	279,966	161,201	136%
Education and Training	6,444	710	12%	204,398	70,150	52%
Electricity, Gas, Water and Waste Services	246	-15	-6%	19,926	10,445	110%
Financial and Insurance Services	1,104	261	31%	72,235	27,184	60%
Health Care and Social Assistance	8,716	3,849	79%	278,766	127,714	85%
Information Media and Telecommunications	380	-336	-47%	41,673	783	2%
Manufacturing	3,457	-566	-14%	246,367	5,610	2%
Mining	19	10	111%	5,942	2,550	75%
Other Services	2,448	759	45%	107,041	41,018	62%
Professional, Scientific and Technical Services	3,206	604	23%	262,459	130,432	99%
Public Administration and Safety	6,159	2,876	88%	145,096	74,478	105%
Rental, Hiring and Real Estate Services	1,213	264	28%	63,764	16,893	36%
Retail Trade	5,164	730	16%	239,299	60,357	34%
Transport, Postal and Warehousing	2,022	719	55%	104,272	22,904	28%
Wholesale Trade	3,526	1,195	51%	126,793	26,163	26%
Total	**56,955**	**14,673**	**35%**	**2,693,30**	**917,40**	**52%**

The Palmerston North Central statistical area is the largest area for employment, with 16,400 (30% of the city) employees counted in February 2022. Palmerston North Central was also the largest contributor to employment growth between 2000 and 2022, with an additional 4,400 employees, an increase of 36%. The strongest increase was in the Palmerston North Airport area unit, where the number of employees increased from 160 in the year 2000 to 2,150 in 2022. This includes the high-growth industrial zone to the northeast of the city - the North East Industrial Zone.

Unemployment

Elevated demand for labour in Palmerston North is reflected in increasing job numbers, rising incomes, and falling Jobseeker benefit numbers.

[4] Consistent with the Australian and New Zealand Standard Industrial Classification 2006 Industrial Classification (ANZSIC06) - Dataset - data.govt.nz - discover and use data

Tight labour market conditions are also reflected in unemployment figures, with the unemployment rate for the city in December 2022 below the regional and national unemployment rate at 3.2%. The unemployment trends [5]are shown in Figure 7 below.

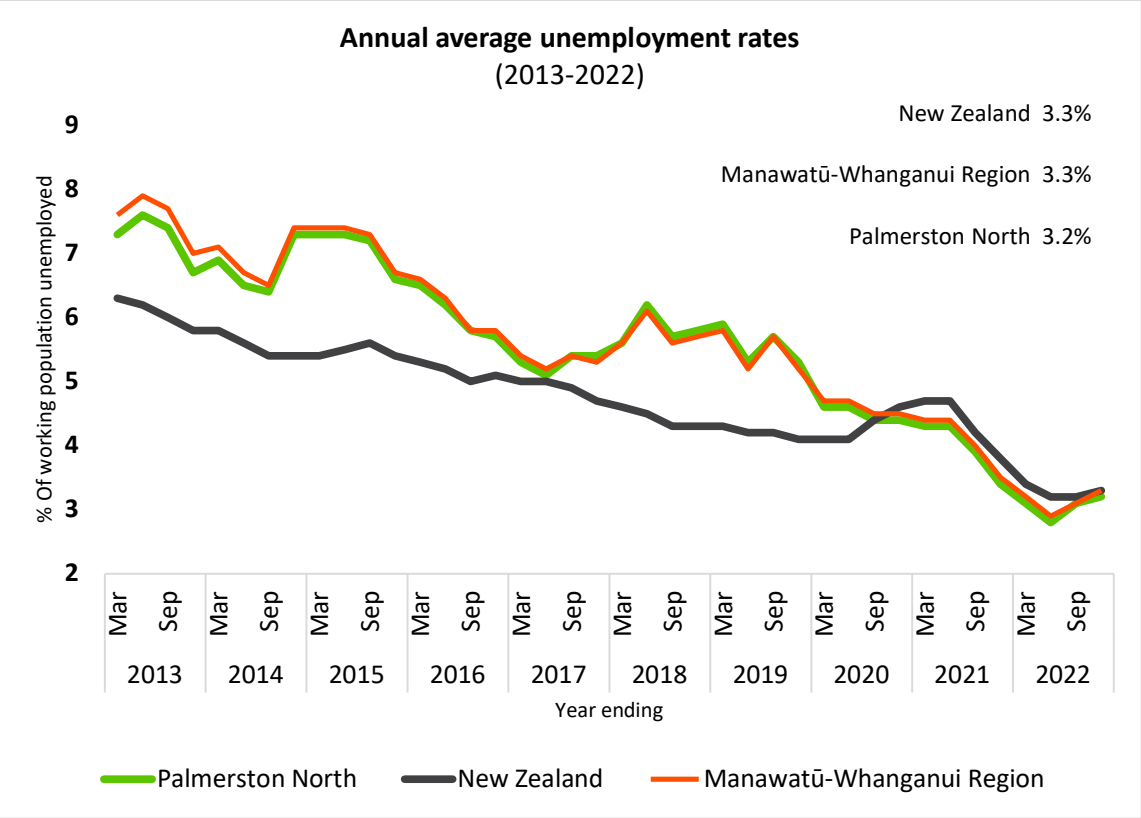

Figure 7 Annual average unemployment rate

Annual earnings

Strong labour force conditions in the city are reflected in earnings growth. Total annual earnings (salaries, wages and self-employment) in Palmerston North for the year ending March 2021 increased by 7.5% to reach a total of $3,508 billion, higher than the 5.3% national increase.

Electronic card retail spending

The annual total electronic card retail spending in Palmerston North was $1,451m for the period ending December 2022. This is an increase of 7.3% compared to 10.8% growth across the country. The growth rate for the period ending April 2023 increased slightly to 7.6% in Palmerston North, compared to 12% nationally.

Since the pandemic, Palmerston North's annual growth rate has been higher than the national average until October 2022 as parts of the country have been catching up from higher pandemic restrictions (including Upper Northland, Auckland, Raglan, Te Kauwhata, Huntly, Ngāruawāhia, Hamilton City and surrounding areas) while other parts of New Zealand were in

[5] Source: Infometrics, QEM, December 2022

Alert Level 2. Figure 8 below shows the annual change in electronic card spending (December 2017 – April 2023) in Palmerston North and New Zealand.

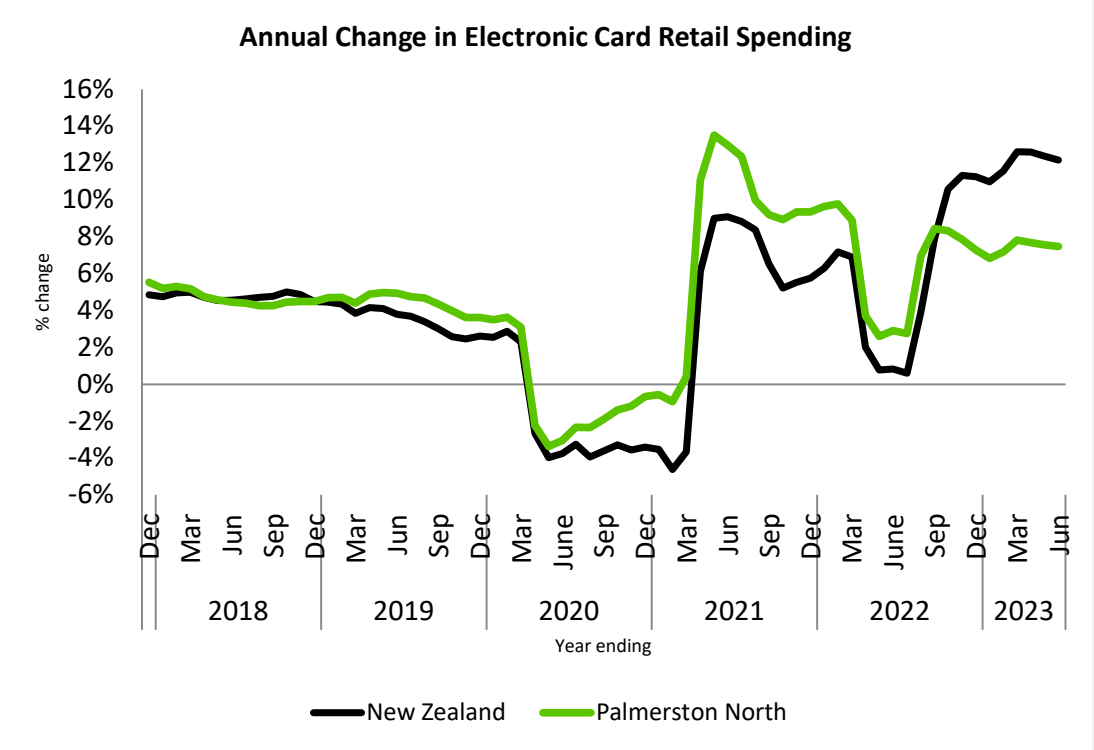

Figure 8 Annual change in electronic card retail spending

Electronic card spending by retail precincts over time (shown in Figure 9 below) shows that spending generally continued to grow after the recovery from the dips during the pandemic period. Our retail precincts are:

- Inner Central Business District (CBD)
- Outer CBD
- Terrace End
- The rest of Palmerston North

The "local" Terrace End precinct appears to be least affected by the pandemic.

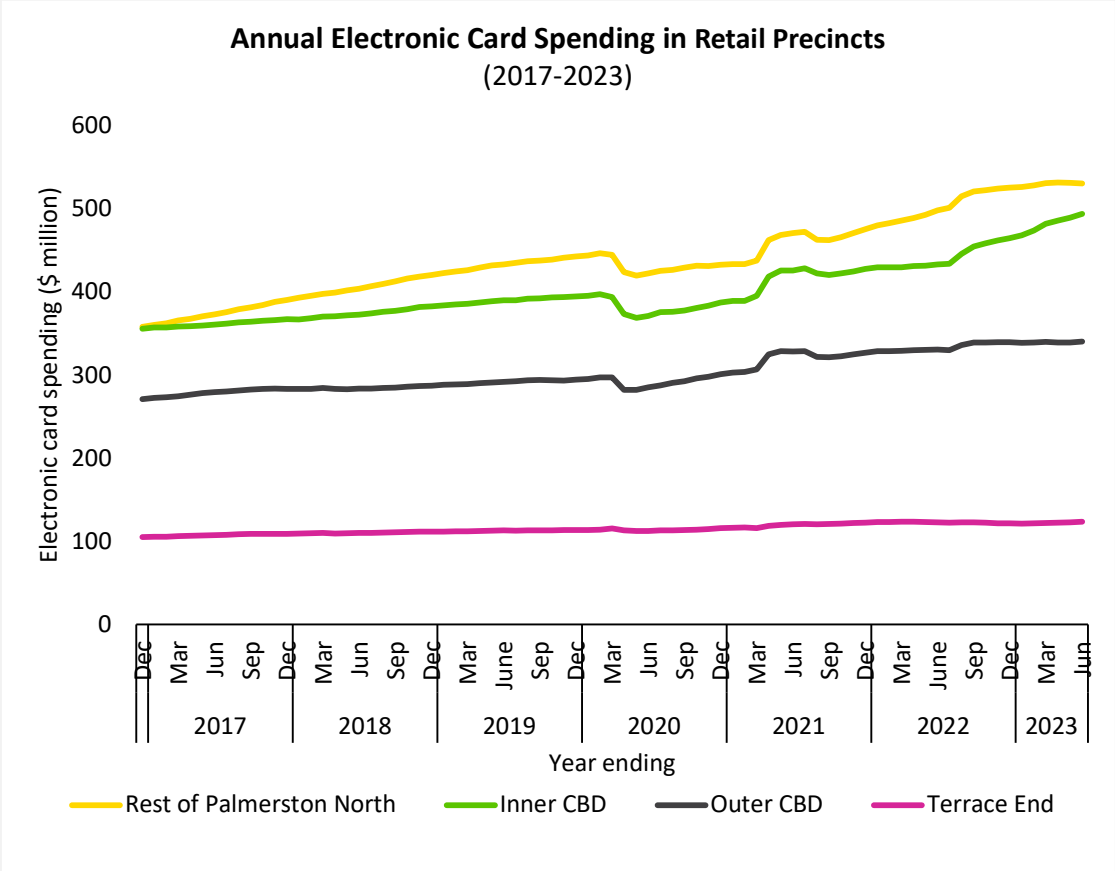

Figure 9 Retail precincts' annual electronic card spending (2017 - 2022)

The loyalty rate (percentage of spending by residents at local retailers) for Palmerston North remained high at 81.2% in the year ending December 2022.

For Palmerston North, visitor spending was $511 million for the year ending December 2022, accounting for 35.2% of total electronic card retail spending, compared to 34.5% the year before.

Groceries and liquor accounted for 33% of total electronic card spending in the year to December 2022. During this period, the highest growth sector was "Arts, recreation & visitor transport" at 27.8%. Figure 10 below shows the growth rate of spending categories:

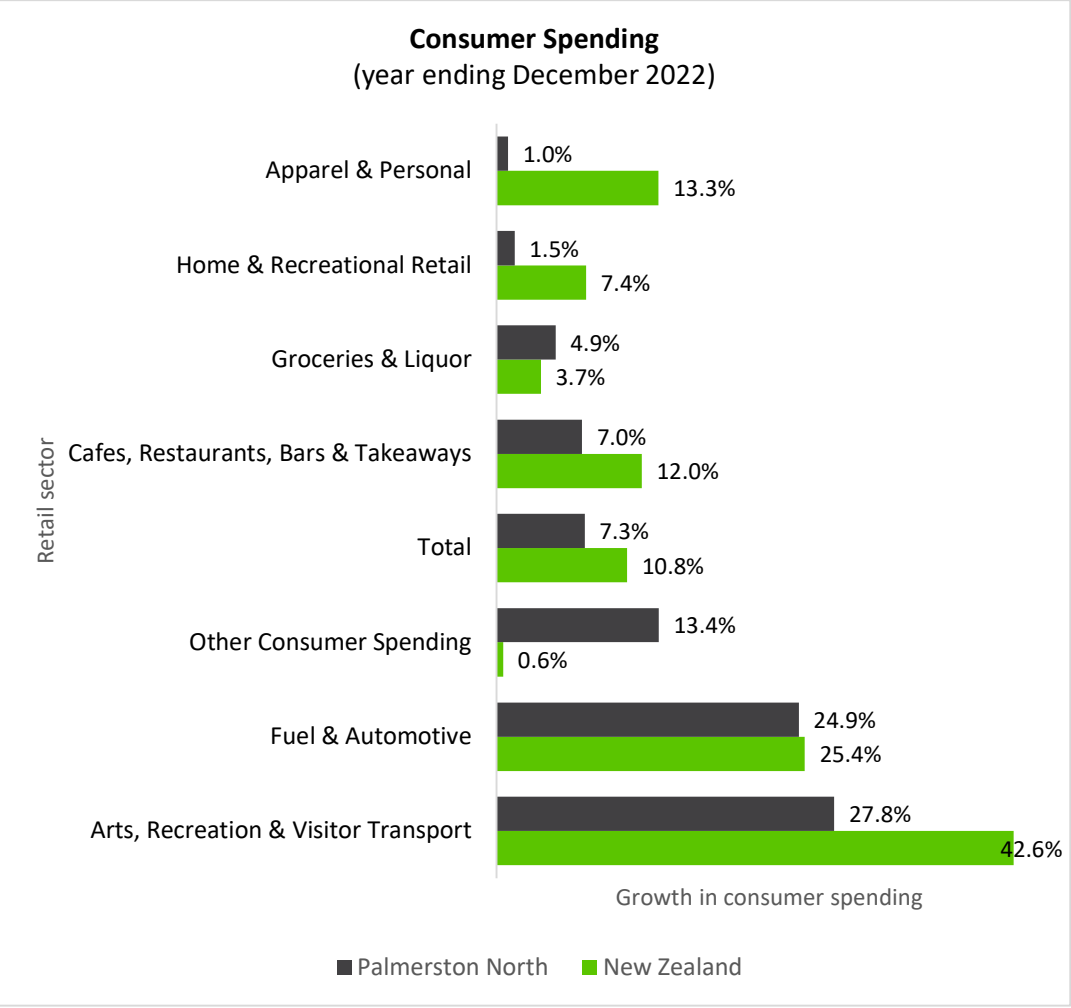

Figure 10 Change in Palmerston North electronic card retail spending by sector

Tourism Electronic Card Spending

Tourism electronic card transactions from visitors were recorded as $291.7 million for the year ending December 2022. This consisted of spending of $273 million from domestic visitors (4.2% increase compared to 8.4% nationally) and $18 million from international visitors (75.6% increase compared to 167.3% nationally).

Palmerston North was ranked 12th out of 67 local authorities for domestic visitor spending and was ranked 20th out of 67 for international visitor spending for the year ending December 2022. Table 3 below shows these rankings.

Table 3 Ranking of domestic and international tourism spending by territorial authority (year ending December 2022)

Rank	Territorial Authority	Domestic ($ mil)
1	Auckland	2,346
2	Christchurch City	773
3	Queenstown-Lakes District	712
4	Western Bay of Plenty District	586
5	Tauranga City	503

Rank	Territorial Authority	International ($ mil)
1	Auckland	663
2	Queenstown-Lakes District	330
3	Christchurch City	163
4	Western Bay of Plenty District	117
5	Rotorua District	56

Rank	Territorial Authority	Domestic ($ mil)
6	Dunedin City	376
7	Hamilton City	371
8	Taupo District	367
9	Rotorua District	303
10	Whangarei District	297
11	Thames-Coromandel District	286
12	**Palmerston North City**	**273**
13	New Plymouth District	204
14	Napier City	195
15	Far North District	185
16	Marlborough District	178
17	Timaru District	172
18	Hastings District	164
19	Waipa District	151
20	Tasman District	133
21	Invercargill City	126
22	Nelson City	125
23	Central Otago District	123
24	Lower Hutt City	116
25	Waitaki District	104
26	Ashburton District	103
27	Wellington City	102
28	Kapiti Coast District	102
29	Whanganui District	100
30	Masterton District	92
31	Hauraki District	90
32	Hurunui District	85
33	Gore District	84
34	Matamata-Piako District	84
35	Waikato District	81
36	Kaipara District	80
37	Horowhenua District	80
38	Ruapehu District	79
39	Gisborne District	77
40	Mackenzie District	71
41	South Waikato District	68
42	Selwyn District	68
43	Southland District	64
44	South Wairarapa District	55
45	Westland District	54
46	Grey District	52
47	Kaikoura District	50
48	Whakatane District	48

Rank	Territorial Authority	International ($ mil)
6	Tauranga City	49
7	Hamilton City	42
8	Dunedin City	41
9	Taupo District	35
10	Far North District	31
11	Napier City	25
12	Marlborough District	23
13	Nelson City	22
14	Mackenzie District	21
15	New Plymouth District	21
16	Whangarei District	21
17	Whakatane District	21
18	Southland District	20
19	Tasman District	19
20	**Palmerston North City**	**18**
21	Lower Hutt City	18
22	Thames-Coromandel District	18
23	Hastings District	16
24	Invercargill City	12
25	Ruapehu District	11
26	Waipa District	10
27	Kaikoura District	9
28	Gisborne District	9
29	Porirua City	9
30	Central Otago District	9
31	Kapiti Coast District	9
32	Timaru District	9
33	Ashburton District	9
34	Wellington City	8
35	Selwyn District	7
36	Hurunui District	7
37	Whanganui District	7
38	Matamata-Piako District	7
39	Waitaki District	7
40	Waikato District	7
41	Waimakariri District	7
42	Grey District	5
43	Masterton District	5
44	South Wairarapa District	4
45	Upper Hutt City	4
46	Westland District	4
47	Buller District	4
48	Horowhenua District	4

Rank	Territorial Authority	Domestic ($ mil)
49	Rangitikei District	47
50	Porirua City	46
51	Buller District	44
52	Clutha District	42
53	Tararua District	41
54	Waimakariri District	41
55	South Taranaki District	41
56	Manawatu District	37
57	Waitomo District	35
58	Kawerau District	30
59	Upper Hutt City	26
60	Opotiki District	24
61	Central Hawke's Bay District	22
62	Otorohanga District	17
63	Wairoa District	15
64	Stratford District	15
65	Carterton District	11
66	Waimate District	10
67	Chatham Islands	4

Rank	Territorial Authority	International ($ mil)
49	Kaipara District	4
50	Waitomo District	3
51	South Waikato District	3
52	Hauraki District	3
53	South Taranaki District	2
54	Kawerau District	2
55	Clutha District	2
56	**Manawatu District**	2
57	Gore District	2
58	Rangitikei District	2
59	Otorohanga District	2
60	Tararua District	1
61	Opotiki District	1
62	Central Hawke's Bay District	1
63	Stratford District	1
64	Wairoa District	1
65	Carterton District	1
66	Waimate District	0
67	Chatham Islands	0

Major development and construction projects announced for Palmerston North and the Manawatū region amount to close to $8 billion of construction activity over the period to 2035. Some projects under development do not have final values. The construction investment estimates are included in Table 4 below. The values of the projects below are deemed conservative, as in many cases, project costs have not been updated to reflect the increase in labour and material costs in the construction sector since 2020.

The total proposed capital expenditure by Palmerston North City Council over the 2021-2031 period is $1.3 billion. Manawatū District's proposed capital budget is $308 million.

Table 4 Table Manawatū Region: Major construction projects (2020-2035) as of June 2023

Major construction projects	Value ($ million)	Timing
Te Ahu A Turanga (Manawatū Gorge Replacement Road)	650	Started Jan 2020
Linton and Ohakea Regeneration Plan 2019	660	2019-2035
Mercury Energy - Turitea Windfarm	450	2019-2022 Commissioned 2023
Massey University's capital plan	230	2020-2030
Powerco growth and security projects	245	2017-2024

Te Whatu Ora MidCentral surgical and mental health	57	2022-2023
Te Whatu Ora MidCentral Acute Services block	370	timing uncertain
Private hospital, Milson Line	700	2023-2027
Palmerston North Airport Terminal Building	30	
Manukura School	38	Building consent issued October 2022
Palmerston North Integrated Transport Investment	335 - 370	Timing uncertain
KiwiRail Regional Freight Hub	1,016	Subject to consent
Palmerston North City Council capital investment	**1,350**	**2021-2031**
Manawatū District capital investment	308	2021-2031
Waka Kotahi Otaki to North of Levin	1,500	2024-2029
Massey Solar Farm	10	2023-2024
Summerset Retirement Village - Whakarongo	Value not confirmed	Timing not confirmed
Te Rere Hau Windfarm replacement	Value not confirmed	Timing not confirmed
Kāinga Ora – Homes and Communities 250-300 unit development	Value not confirmed	Timing not confirmed
Former Post Office Hotel	Value not confirmed	Timing not confirmed
Total Value	**$7,949 - $7,984 million**	

In summary

The structure of the Palmerston North economy and elevated public and private investment have supported economic activity and stimulated investment in new dwellings and non-residential construction in the city since 2015.

The population of the city grew strongly between 2015 and 2020 as businesses and organisations sought labour and opportunities for business growth. While strong economic activity continued, population growth stalled between 2020 and 2022 as border closures and economic restrictions impacted the flow of labour into the city. It halted the migration of international students and refugees to Palmerston North.

Strong public and private construction investment continued into 2021 as house prices peaked at record levels and low-interest rates increased demand for new dwellings. Supply shortages in the construction sector alongside elevated demand combined to drive up the cost of

construction in 2021. As mortgage costs increased and inflation reduced the disposable incomes of businesses and households, house prices began to fall in early 2022, limiting the return to residential investment and reducing the demand for new dwellings. Non-residential construction in the city also weakened over this period. However, elevated public investment alongside the pipeline of work generated has helped to sustain demand in the construction sector.

Overall, the Palmerston North economy continued to perform well into 2022 and 2023 amidst rising costs for households and businesses. Job growth helped to sustain spending across the economy, and the resilience of households was supported by rising incomes and increased employment opportunities, alongside investment flowing through to economic activity.

The Palmerston North economy will continue to be supported by the city's large public sector, as well as a substantial professional services sector that supports the city's strengths in healthcare, education, research and government services. As a central location in the lower North Island, Palmerston North is also a centre for distribution. This industry is growing rapidly, with substantial investment as well as improved roading networks between Palmerston North and Wellington and Hawke's Bay, setting the scene for further growth in the sector to 2054.

Population growth in the city is expected to be supported by continued demand for labour as well as rising migration from other parts of New Zealand, as remote working enables people to seek higher living standards in the regions. An increase in net international migration is also anticipated as the number of overseas workers in the country increases back toward pre-COVID and long-term average levels.

The growth outlook for Palmerston North remains positive due to the expectation that private investment will increase due to easing inflation and lower interest rates in 2024 and that large-scale investment planned for the region will positively influence labour demand and earnings in the city to 2054. These factors are expected to support new housing and business development in Palmerston North over the short, medium and long term.

Palmerston North City Commercial Land Assessment

August 2023

FRESH INFO

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1 Executive summary

Background

The NPS-UD requires Palmerston North City Council (PNCC) to assess the short-term, medium-term, and long-term demand for commercial land in Palmerston North City to ensure there is sufficient development capacity to accommodate it. The resulting projections are a critical input into PNCC's three yearly Housing and Business Development Capacity Assessment (HBA). For the purposes of the NPS-UD 'short-term' is defined as 3 years, 'medium-term' as 10 years, and 'long-term' as 30-years.

The main objectives of this report are to:

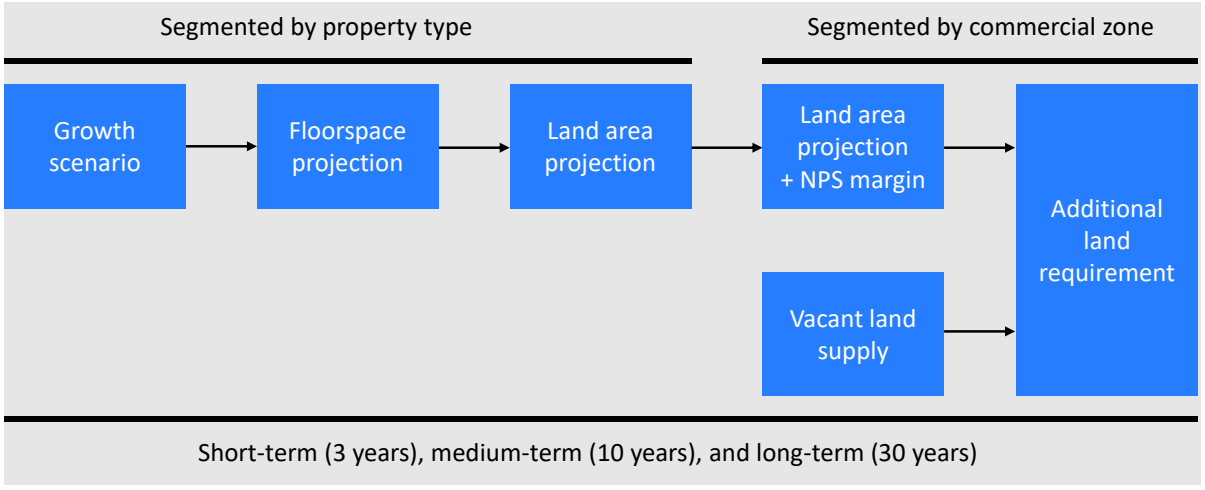
1. Project future commercial land demand in Palmerston North City, segmented by property type.
2. Compare the demand projections with the current supply of vacant commercial zoned land to determine if/when additional land and supporting infrastructure may be required.
3. Understand the impact of uncertainty on the projections by conducting sensitivity analysis. This requires the development of demand projections for low and high growth scenarios, in addition to the base scenario.

The projections provide an objective assessment of the amount of land required to meet future commercial needs. They do not consider the development implications of factors such as land banking and high ownership concentration nor availability of supporting infrastructure in zoned land.

Methodology

The methodology used to meet the project objectives involved five sequential stages which are summarised in the diagram below. A sensitivity analysis was also conducted to provide feasible lower (low land demand scenario) and upper (high land demand scenario) bounds around the base scenario. We would expect future commercial land requirements to lie within this range, and to generally follow the trend of the base scenario over time.

Figure 1 Methodology used to meet the project objectives



Property type outputs

The results of the floorspace assessment indicate the need for:

- 84,700 sqm of additional floorspace in the short-term
- 225,900 sqm of additional floorspace in the medium-term
- 780,800 sqm of additional floorspace in the long-term

The majority of the additional floorspace would be required by industrial businesses.

Table 1 Additional floorspace requirement segmented by property type (sqm)

	3 years	10 years	30 years
Small & medium industrial	28,553	79,606	188,244
Large industrial	49,740	147,858	448,660
Accommodation	0	3,805	13,899
Small & medium retail	0	0	38,136
Large retail	2,950	11,189	28,722
Commercial office	0	59	28,682
Commercial services	3,484	13,399	34,497
TOTAL	84,727	255,916	780,840

The results of the land requirement assessment indicate the need for:

- 20.4 ha of additional land in the short-term to support the floorspace projections
- 59.3 ha of additional land in the medium-term to support the floorspace projections
- 159.9 ha of additional land in the long-term to support the floorspace projections

Most of the additional land would be required by industrial businesses.

Table 2 Additional land requirement segmented by property type (hectares)

	3 years	10 years	30 years
Small & medium industrial	7.6	20.4	44.2
Large industrial	11.6	33.9	99.7
Accommodation	0.0	0.3	1.0
Small & medium retail	0.0	0.0	3.3
Large retail	0.5	2.0	4.8
Commercial office	0.0	0.0	0.6
Commercial services	0.7	2.7	6.4
TOTAL	20.4	59.3	159.9

Commercial zone outputs

The results of the capacity assessment indicate that:

- The 66.4 hectares of airport and industrial land that is zoned and available for development will be sufficient to accommodate future requirements in all periods considered.

- The 145.9 hectares of NEIZ land that is zoned and available for development will be sufficient to accommodate future requirements in all periods considered.
- The 19 hectares of business zoned land (inner business, outer business, fringe, and local zones) that is available for development will be sufficient to accommodate future requirements in all periods considered.

Table 3 Capacity assessment for land in airport & industrial zones (hectares)

	3 years	10 years	30 years
Additional commercial land requirement	8.9	24.3	51.1
Commercial zoned land available in 2023	66.4	66.4	66.4
Commercial zoned land remaining	57.5	42.1	15.3
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**

Table 4 Capacity assessment for land in NEIZ (hectares)

	3 years	10 years	30 years
Additional commercial land requirement	14.4	42.0	117.2
Commercial zoned land available in 2023	145.9	145.9	145.9
Commercial zoned land remaining	131.6	104.0	28.7
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**

Table 5 Capacity assessment for land in business zones (hectares)

	3 years	10 years	30 years
Additional commercial land requirement	1.2	4.9	15.6
Commercial zoned land available in 2023	19.0	19.0	19.0
Commercial zoned land remaining	17.9	14.1	3.4
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**

Sensitivity analysis

The results of the sensitivity analysis indicate that:

- There is sufficient land in all zones to meet 30-year planning requirements under the low land demand and base scenarios.
- There is sufficient land in all zones to meet short and medium-term planning requirements under the high land demand scenario, but more land would be required in each zone to meet long-term (30 year) requirements.

Table 6 Projected gross land deficit for airport & industrial zones

Scenario	3 years	10 years	30 years
Low	0.0	0.0	0.0
Base	0.0	0.0	0.0
High	0.0	0.0	77.1

Table 7 Projected gross land deficit for NEIZ

	3 years	10 years	30 years
Low scenario	0.0	0.0	0.0
Base scenario	0.0	0.0	0.0
High scenario	0.0	0.0	86.4

Table 8 Projected gross land deficit for business zones

	3 years	10 years	30 years
Low scenario	0.0	0.0	0.0
Base scenario	0.0	0.0	0.0
High scenario	0.0	0.0	40.3

Comparison with previous NPS-UD projections

It is difficult to compare the current projections with those produced by Property Economics in 2018 due to material differences in modelling and reporting approaches. However, the Property Economics report predicted the need for more industrial and business zoned land within the forecasting horizon, while the current projections indicate that there is sufficient industrial and business zoned land to meet all commercial requirements for the next 30 years. These opposing conclusions are driven by the following factors which result in materially different floorspace and land projections when extended across 30 years:

- Property Economics assumed that existing floorspace was operating at maximum productivity for retail and commercial service properties such that any extra demand would require new floorspace. The current projections assume that (a) vacant properties will absorb additional demand until the optimal vacancy rate is achieved. This may require the redevelopment of B and C grade buildings that are currently difficult to tenant; and (b) businesses will use floorspace more efficiently over time due to scale economies and higher occupancy costs. The cumulative outcome of these effects is an additional floorspace requirement that sits comfortably below the projected change in demand in percentage terms.
- Property Economics assumed that current land use intensity (floorspace per hectare) will persist for the next 30 years. The current projections assume that (a) the land use intensity of developed land parcels will gradually increase as infill/redevelopment occurs; and (b) new developments will be built at a higher density than existing developments due to higher land and building costs. The cumulative outcome of these effects is an additional land requirement that sits comfortably below the projected additional floorspace requirement in percentage terms.

Conclusions

The overarching conclusion is that Palmerston North City has enough zoned land to meet its business and industrial requirements for the next 30 years. Even the high land demand scenario, which is based on an unlikely combination of high population growth, high optimal vacancy rate, and low floorspace productivity, indicates that there is enough zoned land to meet all commercial needs for at least 20 years.

However, factors such as land banking and high ownership concentration could create the perception of scarcity even though there is enough available land to meet long-term commercial requirements. This is something PNCC will need to monitor and respond to if it becomes an issue.

2 Introduction

2.1 Background

The National Policy Statement on Urban Development (NPS-UD) sets forth a comprehensive framework for guiding sustainable and inclusive urban development in New Zealand. Within this framework, commercial land projections play a vital role in ensuring that the objectives and requirements of the NPS-UD are met effectively. These projections provide valuable insights into future demand for commercial and industrial spaces, helping local authorities and stakeholders make informed decisions that align with the goals of the policy.

The NPS-UD recognises the importance of commercial land development in driving economic growth, promoting employment opportunities, and creating vibrant urban environments. It emphasises the need for well-designed, accessible, and sustainable commercial areas that accommodate the evolving needs of businesses and residents alike. By projecting the requirements for commercial land development, stakeholders can identify suitable locations, plan infrastructure investments, and foster economic prosperity while preserving the cultural and environmental fabric of urban areas.

Commercial land projections allow for a comprehensive assessment of the demand for commercial spaces, enabling local authorities to strategically allocate land resources, plan for necessary infrastructure, and support the growth of key industries. By incorporating design considerations and environmental sustainability principles, commercial land projections contribute to the creation of resilient and liveable urban environments that align with the NPS-UD's objectives.

Commercial land projections also serve as a valuable tool for achieving the density and intensification goals outlined in the NPS-UD. By identifying opportunities for higher-density commercial developments and mixed-use areas, these projections help optimise land use, reduce urban sprawl, and support efficient public transportation systems. This, in turn, contributes to reduced carbon emissions, improved energy efficiency, and enhanced overall urban functionality.

Overall, commercial land projections are essential for meeting the requirements of the NPS-UD by providing a forward-looking perspective on the demand for commercial spaces. By integrating these projections into urban planning processes, local authorities and stakeholders can make well-informed decisions that align with the policy's objectives, foster economic growth, promote social well-being, and ensure the sustainable development of urban areas for generations to come.

2.2 Objectives

The NPS-UD requires Palmerston North City Council (PNCC), a tier 2 authority under the NPS-UD, to assess the short-term, medium-term, and long-term demand for commercial land in Palmerston North City and assess whether there is sufficient development capacity within commercial zones to accommodate it. More specifically, the NPS-UD requires:

- Development of the ‘most likely’ demand projection for commercial land, segmented by business sector (base scenario); and
- Clear articulation of the assumptions that underpin the commercial land projections; and
- Understanding and appropriate management of the nature and potential effects of uncertainty on the commercial land projections.

The resulting projections are a critical input into PNCC's three yearly Housing and Business Development Capacity Assessment (HBA). For the purposes of the NPS-UD 'short-term' is defined as 3 years, 'medium-term' as 10 years, and 'long-term' as 30-years.

The main objectives of this report are to:

1. Project future commercial land demand in Palmerston North City for the following property types:

    - Small & medium industrial (up to 11,000 sqm of floorspace)
    - Large floor plate industrial (more than 11,000 sqm of floorspace)
    - Accommodation
    - Small & medium (pedestrian-oriented) retail (up to 3,900 sqm of floorspace)
    - Large format (vehicle-oriented) retail (more than 3,900 sqm of floorspace)
    - Commercial office
    - Commercial services

    The NPS-UD requires a 'competitiveness margin' to be added to the demand projections. A competitiveness margin is a margin of development capacity over and above expected demand that facilitates choice and competitiveness in commercial land markets. The competitiveness margins for commercial land are 20% for the short-term and medium-term projections, and 15% for the long-term projections.

2. Compare the demand projections with the current supply of vacant commercial zoned land to determine if/when additional land and supporting infrastructure may be required.

3. Understand the impact of uncertainty on the projections by conducting sensitivity analysis. This requires the development of demand projections for low and high land demand scenarios, in addition to the base scenario.

2.3 Limitations

Urban development patterns are influenced by a wide range of factors that are difficult to predict with certainty. This presents significant challenges when trying to project commercial land requirements over long periods of time. The following limitations should be considered when using and interpreting the projections:

- The projections have been developed at a city-wide level and therefore assume that all locations are equally attractive for development. Additional work may be required to ensure that the right amount of land is available in the right places at the right times.
- The projections are informed by long-term trends and relationships that may not persist in the future. For example, structural changes may occur in business practices or commercial land use patterns that can't be predicted.
- Not all relevant factors that influence demand can be modelled e.g. relative land prices and/or construction costs which could influence the rate of commercial development, economic conditions which could influence the demand for goods and services. The modelling process is a simplification of reality that attempts to include as much as it can within the relevant data, time, and budget constraints. This introduces an error margin associated with the model itself.

- Models of this nature rely heavily on the assumptions pushed through them. There is an error margin associated with each assumption which is additional to the model-related error margin. The compound effect of multiple error margins within a single model can be significant and generally expands for forecasts further into the future.
- The projections do not consider the development implications of factors such as land banking and high ownership concentration.

We have tried to manage the nature and potential effects of these limitations by putting realistic error margins around the base forecasts to provide a feasible range of outcomes bounded by the low and high land demand scenarios. We expect future commercial land requirements to lie within this range, and to generally follow the trend of the base scenario over time. Despite this we still recommend using and interpreting the projections with these limitations in mind.

3 Methodology

3.1 Data

Palmerston North City Council provided the following data to inform the analysis:

- Total floorspace segmented by property type (sqm).
- Occupied floorspace segmented by property type (sqm).
- Area of developed land parcels segmented by property type (ha). Developed land parcels are defined as land parcels that are used for commercial purposes with or without buildings.
- Area of vacant commercial zoned land segmented by commercial zone (ha).

A summary of the source data is provided in Appendix 1.

3.1.1 Property type definitions

Each commercially zoned and "developed" land parcel within Palmerston North city was assigned to one of the eight property types in the table below based on its main commercial use. PNCC considered a land parcel to be developed if it contained an occupied or vacant commercial building.

Main use was determined by PNCC based on the "best use" category in the Palmerston North City District Valuation Roll (DVR) prepared by QV, and commercial QV worksheets where necessary. The best use category generally reflects the current or main use of the property and can be easily adapted to determine the property types for this assessment. Property types were assigned to properties categorised as "industrial – other/mixed" and "commercial – multiple/other" based on dominant floor areas obtained from QV commercial worksheets. For example, if accommodation had the largest floor area within a mixed or multiple use property, the entire property was assigned to the accommodation property type.

The non-commercial property type has been excluded from the analysis.

Table 9 Property type definitions

Property type	Basis (description in best use category in DVR)
Small & medium industrial	Floorspace of up to 11,000 sqm, located in an industrial zone, and assigned as "industrial" in best use category
Large floor plate industrial	Floorspace of more than 11,000 sqm, located in an industrial zone, and assigned as "industrial" in best use category
Accommodation	Assigned as "commercial accommodation" in best use category
Small & medium (pedestrian-oriented) retail	Floorspace of up to 3,900 sqm of floorspace and assigned in best use category as: - Commercial-retail - Commercial-liquor - Commercial-cinema/hall - Commercial-health operations
Large format (vehicle-oriented) retail	Area of more than 3,900 sqm of floorspace, and assigned in best use category as: - Commercial-retail - Commercial-liquor

	- Commercial-cinema/hall - Commercial-health operations
Commercial office	Assigned as "commercial office" in best use category
Commercial services (combination of light industrial and services for businesses)	Located within industrial and business zones and assigned in best use category as: - Commercial-service station - Commercial-motor vehicle - Commercial-education uses (e.g. early childhood centres) - Various "Industrial" categories located in business zones
Other (non-commercial)	All property types not included above including: - Commercial-elderly - aged care facilities, which are considered to be residential - Commercial-educational uses - schools and institutions of higher learning e.g. Te Pukenga - Other property types including airports, art galleries, assemblies, education facilities, religious facilities, sports facilities, residential, recreation facilities, and road reserves.

3.1.2 Commercial zone definitions

In addition to being assigned to a property type, each land parcel was assigned to one of the four commercial zones in the table below based on its location.

Table 10 Commercial zone definitions

Commercial zone	Definition
Airport and industrial zone	Combined airport and industrial zones
North East Industrial Zone (NEIZ)	NEIZ including 35ha designated for KiwiRail's freight hub[1]
Business zone	Combined inner, outer, fringe, and local business zones
Out of zone	Outside the commercial zones above

3.1.3 Total floorspace

Once each land parcel had been assigned to a property type in the DVR, total floorspace was estimated for each property type by summing the relevant floorspaces. For example, accommodation floorspace was derived by summing the floorspaces of all land parcels assigned to the accommodation property type. A summary of the source data is provided in Appendix 1.

[1] The KiwiRail freight hub is expected to have a total land area of around 178ha based on the Notice of Requirement field by KiwiRail in 2020. This includes 50ha of NEIZ land (the remaining 128ha is currently rural land), but it is assumed that 15ha would be allocated to freight and logistics floorspace, so the net loss of commercial land would only be 35ha.

Table 11 Total floorspace segmented by property type and commercial zone (sqm)

	Commercial zone				
	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Small & medium industrial	706,792	33,333	0	0	740,125
Large industrial	228,998	112,969	0	0	341,967
Accommodation	0	0	43,831	1,170	45,001
Small & medium retail	21,374	0	282,070	1,469	304,913
Large retail	13,987	0	107,116	0	121,103
Commercial office	11,720	0	204,201	0	215,921
Commercial services	26,177	0	119,620	0	145,797
Non-commercial	29,844	0	82,291	0	112,135
TOTAL	1,038,892	146,302	839,129	2,639	2,026,962

3.1.4 Occupied floorspace

Occupied floorspace for each property type was estimated by combining assessed vacancy rates with the total floorspaces described above. The vacancy rate data was sourced from:

- Business vacancy data from the Palmerston North Commercial Market Survey 2022 conducted by TelferYoung in December 2022 which covered industrial zoned land (airport zone, industrial zone, and NEIZ) and most of the business zoned land (inner, outer, fringe and the Terrace End component of the local business zone). PNCC has revised the data from this report to reflect vacant commercially occupied land as non-vacant.
- Supplementary business vacancy data collected by PNCC in May 2023 for commercial properties in Ashhurst, Bunnythorpe, Longburn, and local business zones not included in the TelferYoung survey.

A summary of the source data is provided in Appendix 1.

Table 12 Occupied floorspace segmented by property type and commercial zone (sqm)

	Commercial zone				
	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Small & medium industrial	694,554	33,333	0	0	727,887
Large industrial	228,998	112,969	0	0	341,967
Accommodation	0	0	42,111	1,170	43,281
Small & medium retail	20,362	0	247,136	1,469	268,967
Large retail	13,987	0	107,116	0	121,103
Commercial office	11,720	0	180,061	0	191,781
Commercial services	26,177	0	115,182	0	141,359
Non-commercial	29,844	0	80,546	0	110,390
TOTAL	1,025,642	146,302	772,151	2,639	1,946,734

3.1.5 Area of developed land parcels

A developed land parcel is defined as a land parcel containing an occupied or vacant commercial building and/or land serving an essential purpose within a commercial business e.g. car yard, car rental agency, truck stop. Once each land parcel had been assigned to a property type in the DVR, the area of developed land parcels for each property type was estimated by summing the relevant land parcel areas in the DVR. A summary of the source data is provided in Appendix 1.

Table 13 Area of developed land parcels segmented by property type and commercial zone (ha)

	Commercial zone				
	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Small & medium industrial	223.1	15.4	0.0	0.0	238.4
Large industrial	59.8	27.3	0.0	0.0	87.1
Accommodation	0.0	0.0	4.7	0.3	5.0
Small & medium retail	7.2	0.0	40.1	0.5	47.8
Large retail	3.8	0.0	24.6	0.0	28.4
Commercial office	2.5	0.0	21.8	0.0	24.3
Commercial services	9.1	0.0	28.8	0.0	37.9
Non-commercial	211.5	0.0	13.5	0.0	225.0
TOTAL	517.0	42.6	133.5	0.8	693.9

3.1.6 Area of vacant commercial zoned land

Vacant commercial zoned land is defined as any commercially zoned land parcel containing no significant occupied or vacant commercial buildings. For industrial land parcels, this means less than 50 sqm of floorspace or only a small percentage of the land parcel being occupied by commercial buildings. Vacant commercial zoned land parcels include:

- Vacant land parcels used as car parks within business zones
- Occupied land in industrial and business zones used for storage that is not associated with a business such as a car yard or car rental agency
- Residential or rural rated properties within commercial zones
- Land under construction, including completed properties without floor areas in the DVR
- Vacant land within commercial zones

Vacant commercial zoned land parcels are further segmented into:

- Commercially zoned land parcels not requiring public infrastructure i.e. land parcels that have already been subdivided and are available for private ownership
- Commercially zoned land parcels requiring public infrastructure i.e. land parcels that have not yet been subdivided and are likely to require a percentage to be set aside for public infrastructure such as roads and water management.

This segmentation is necessary to ensure that an appropriate amount of available zoned land is allocated to public infrastructure to support future development. This area of land must be subtracted from the amount of

vacant commercial zoned land available to support private development. A summary of the source data is provided in Appendix 1.

Figure 2 Location of vacant commercial zoned land parcels

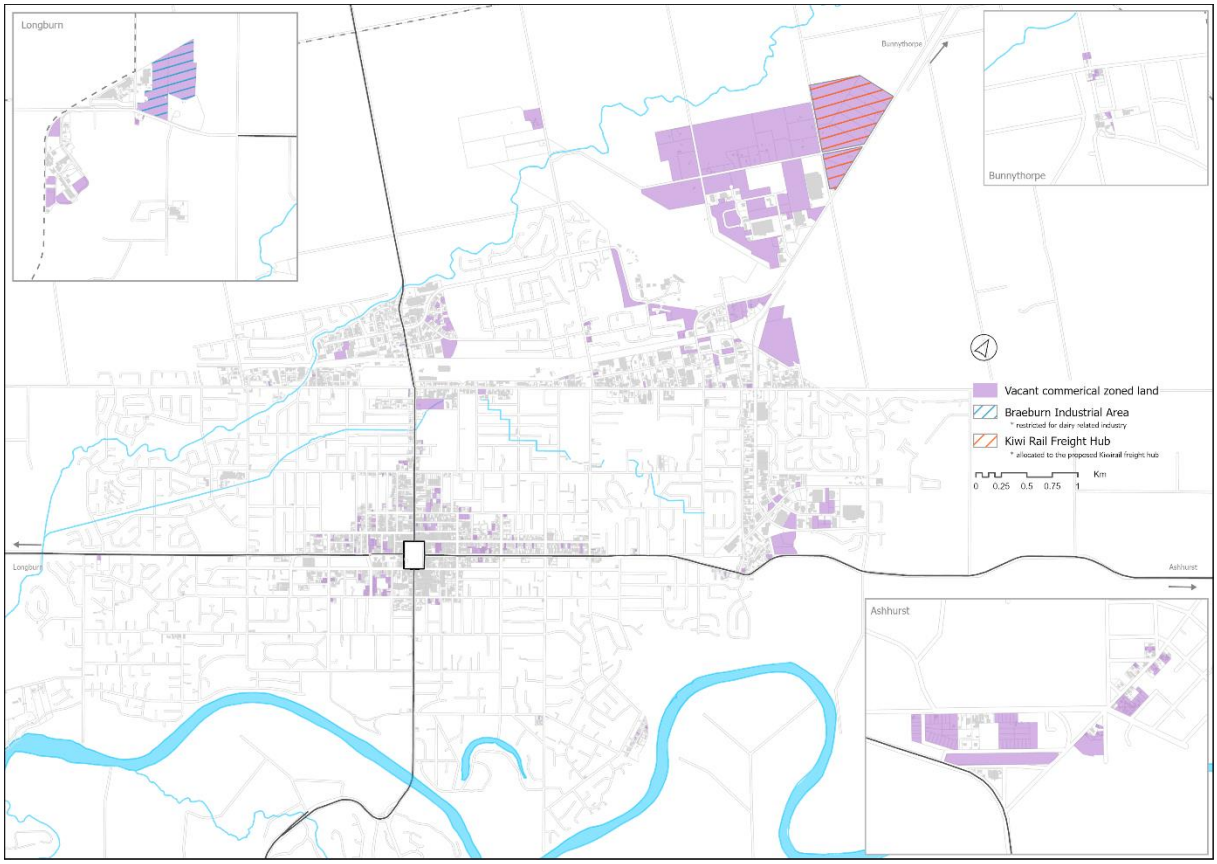


Table 14 Area of developed and vacant commercial zoned land parcels segmented by commercial zone

	Commercial zone				
	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Area of developed land parcels	516.4	42.6	132.9	0.8	692.7
Area of vacant commercial zoned land	99.9	180.9	19.0	5.9	305.9
Parcels not requiring infrastructure	51.7	52.7	19.0	5.9	129.4
Parcels requiring infrastructure	14.7	78.2	0.0	0.0	92.9
KiwiRail hub allocation - commercial*	0.0	15.0	0.0	0.0	15.0
KiwiRail hub allocation - non-commercial*	0.0	35.0	0.0	0.0	35.0
Dairy industry allocation - commercial**	33.5	0.0	0.0	0.0	33.5
Total available land	616.3	223.6	152.0	6.7	998.6

* See section 3.2.6 regarding allocation of NEIZ land to the proposed KiwiRail freight hub.

** This land is zoned Braeburn Industrial Area which 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.

3.1.7 Population projections

Population projections for Palmerston North are used to define low, medium, and high growth scenarios for the city and are therefore an important input to the modelling process. The base population projections were the adopted population projections provided to Fresh Info by Palmerston North City Council. The low and high projections were produced by Fresh Info using the following assumptions:

- Low scenario – annual growth is equivalent to 60% of the base projection.
- High scenario - annual growth is equivalent to 140% of the base projection.

These values have been chosen to (a) reflect the uncertainty involved in long-term population forecasting; and (b) provide a range that we are confident the future population will fall within, which is important for the sensitivity analysis.

Figure 3 Population projections for Palmerston North City

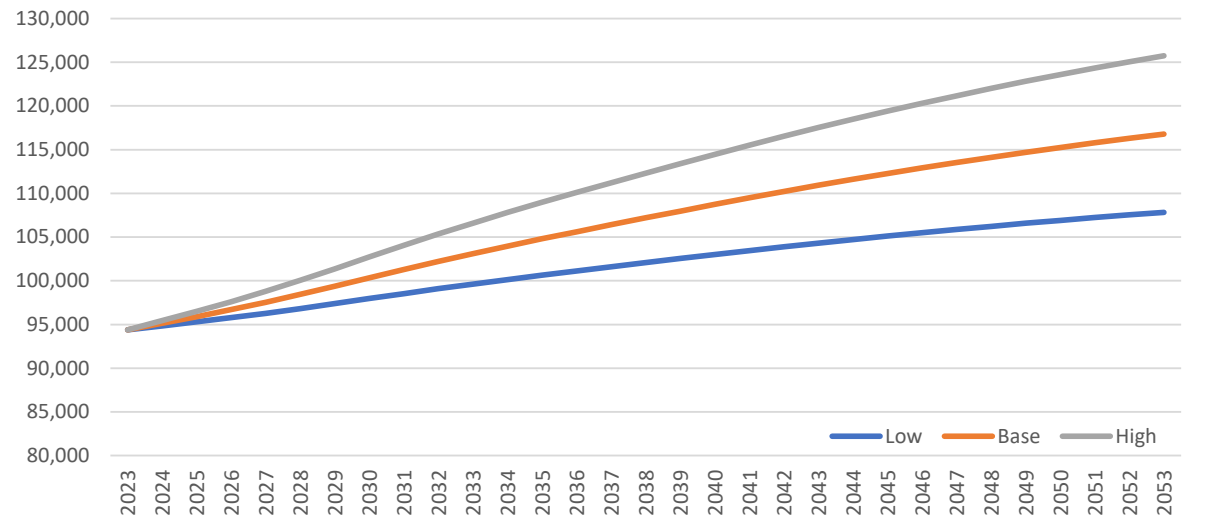


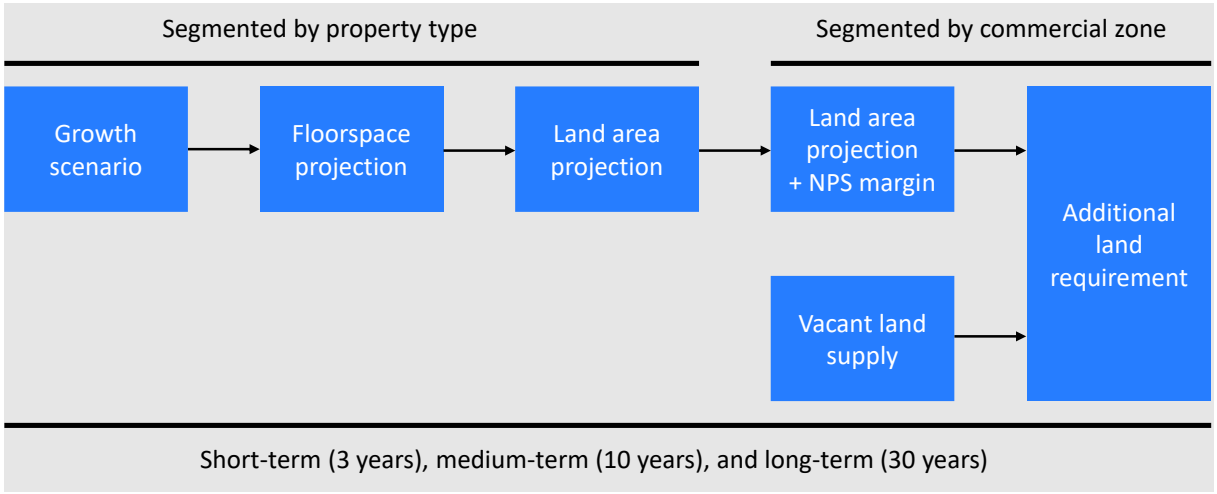
Table 15 Summary of population projections for Palmerston North City

	Low	Base	High
Population			
2023	94,400	94,400	94,400
2026	95,780	96,700	97,619
2033	99,633	103,122	106,611
2053	107,833	116,789	125,744
Growth relative to 2023			
2026	1.5%	2.4%	3.4%
2033	5.5%	9.2%	12.9%
2053	14.2%	23.7%	33.2%
Compounded annual growth rate (CAGR) relative to 2023			
2026	0.5%	0.8%	1.1%
2033	0.5%	0.9%	1.2%
2053	0.4%	0.7%	1.0%

3.2 Modelling

The methodology used to meet the project objectives involved five sequential stages which are summarised in the diagram below.

Figure 4 Methodology used to meet the project objectives



3.2.1 Define the growth scenario the demand projections are responding to

The term 'growth scenario' refers to the changes Palmerston North City expects to see in its overall commercial footprint over time. The specific drivers of these changes will be diverse and impossible to predict with accuracy, and any attempt to model at this level of granularity would introduce unreasonable levels of subjectivity and error into the demand projections.

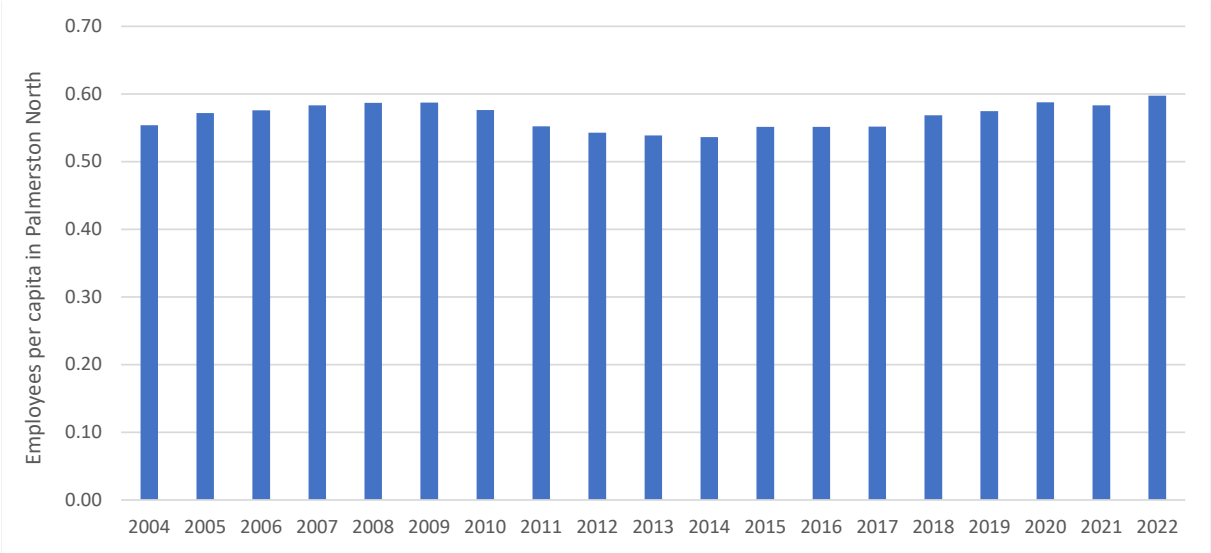
The most objective and internally consistent predictor of Palmerston North's future commercial footprint is it's expected population growth. There are two broad reasons for this:

- As the population expands, the demand for goods, services, and employment opportunities increases. Businesses need adequate commercial spaces to satisfy this demand, driving growth in the commercial footprint.
- Growth in demand for local goods and services (internally or externally generated) creates more business and employment opportunities, which is a catalyst for population growth.

In either case, the long-term relationship between population and commercial footprint is inextricably linked, and it is difficult to imagine a situation in which a city's population could grow at a materially different rate to its commercial footprint, or vice versa.

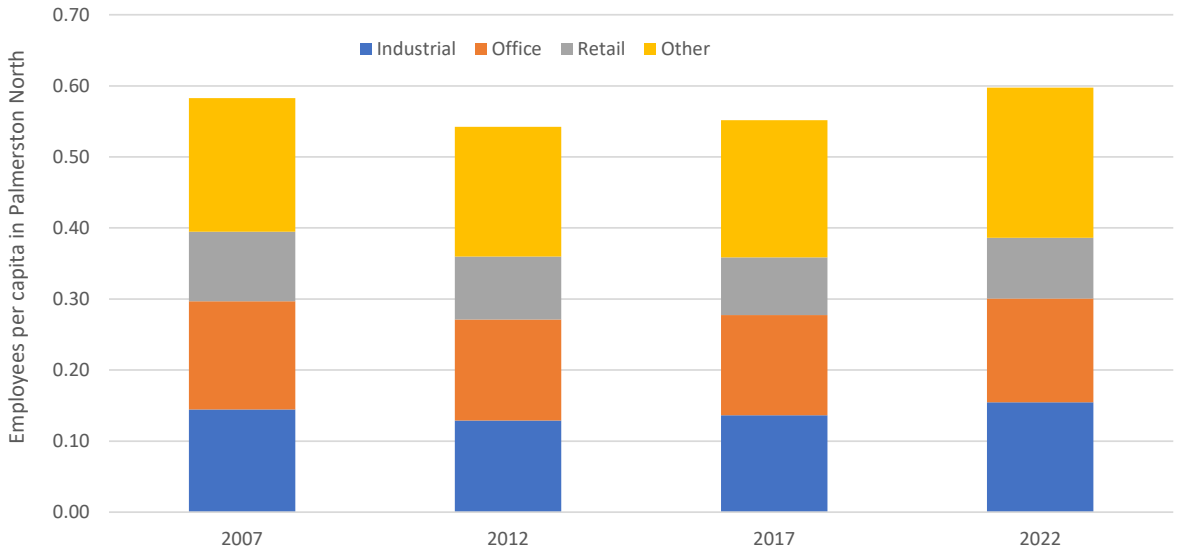
The graph below demonstrates the strength of the relationship between population and employment in Palmerston North over the past 19 years and provides strong support for using population projections to define growth scenarios for the city's commercial footprint.

Figure 5 Employees per capita in Palmerston North



Further analysis shows that the stable long-term relationship between population and employment is also observed at a more disaggregated industry level. This is unsurprising given the interlinkages that exist within the Palmerston North economy i.e. growth in one sector of the economy will generally stimulate growth in other sectors of the economy.

Figure 6 Employees per capita in Palmerston North segmented by industry

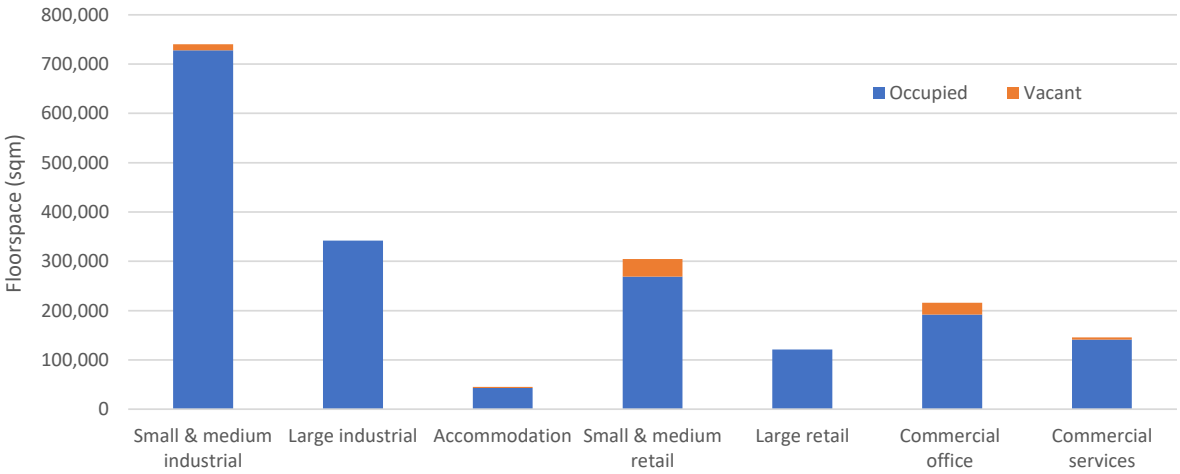


This analysis gives us confidence that it is reasonable to use population growth scenarios as a key driver of future commercial footprint scenarios for Palmerston North.

3.2.2 Floorspace projection by property type

This stage estimates the quantum and timing of additional floorspace required by each property type under each growth scenario. The starting points are the 2023 estimates of total floorspace and occupied floorspace segmented by property type, based on data collected in December 2022 and May 2023. These have been provided by PNCC and are shown in the graph below.

Figure 7 Estimated floorspace in 2023 segmented by property type



The following steps are applied to each property type, except large industrial (see explanation in Section 3.2.6), to estimate future floorspace requirements for each growth scenario.

Step 1: Calculate occupied floorspace per capita to determine how much productive floorspace is required to serve the current resident population. It is important to note that this does not assume that the floorspace is exclusively serving Palmerston North residents. As discussed above, the model leverages the long-term relationship between Palmerston North's population and its commercial footprint, while acknowledging that some of the commercial footprint is sustained by demand originating outside Palmerston North. The table below contains estimates of occupied floorspace per capita in 2023 i.e. the amount of commercial floorspace required to serve both internal and external demand, divided by Palmerston North's resident population.

Table 16 Occupied floorspace per capita in 2023

Property type	Occupied floorspace per capita (sqm)
Small & medium industrial	7.71
Large industrial	3.62
Accommodation	0.46
Small & medium retail	2.85
Large retail	1.28
Commercial office	2.03
Commercial services	1.50
TOTAL	19.45

Step 2: Develop annual projections of occupied floorspace per capita. This is achieved in two stages:

1. Establish baseline assumptions regarding occupied floorspace in year 30 relative to current (2023) levels.
2. Convert the assumed 30-year changes into uniform annual growth rates.

The baseline assumptions for each property type are shown in the table below. The default assumption is that the relationship between occupied floorspace and population does not change over the next 30 years (represented by 100% in the table below), which is consistent with the discussion in Section 3.2.1. The two exceptions are the 'large industrial' and 'accommodation' property types. The treatment of large industrial is discussed in Section 3.2.6, and demand for accommodation floorspace is assumed to grow 10% faster than population over the next 30 years as Palmerston North's tourism offering continues to develop. It is worth noting that guest nights in commercial accommodation in Palmerston North city have grown at a similar rate to population over the past 20 years.

Table 17 Occupied floorspace per capita in year 30 relative to 2023

	Base scenario
Small & medium industrial	100%
Large industrial	n/a
Accommodation	110%
Small & medium retail	100%
Large retail	100%
Commercial office	100%
Commercial services	100%

Step 3: Combine the projections of occupied floorspace per capita with the population projections to estimate the total amount of floorspace required each year to meet the needs of the growth scenario. A vacancy buffer is included in this calculation to build a small amount of commercial flexibility into the market. The assumed vacancy buffers for each property type and growth scenario are shown in the table below. These are based on desktop research which suggests that a 3% occupancy rate represents a healthy leasing market for most small/medium property types.

Table 18 Vacant floorspace buffer by property type

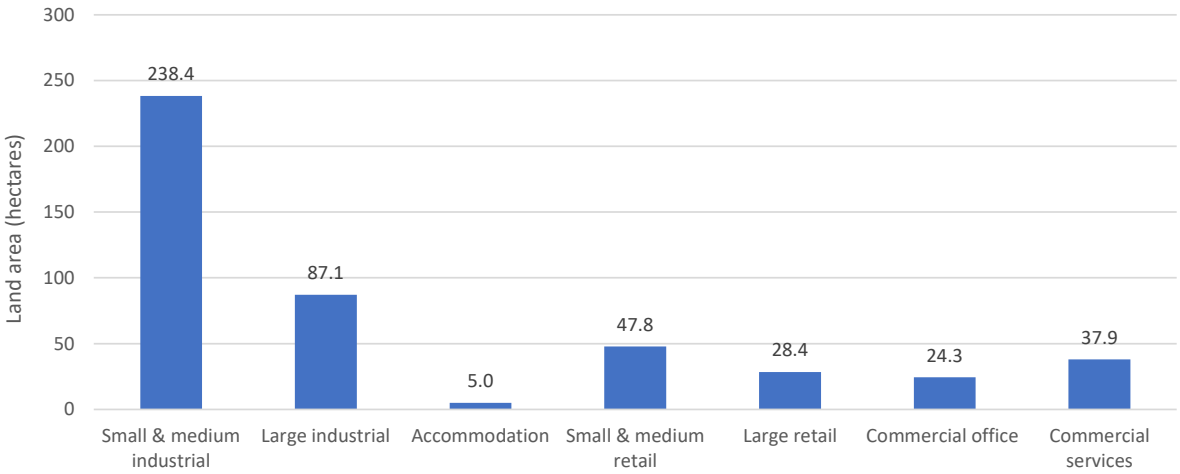
	Base scenario
Small & medium industrial	3.00%
Large industrial	n/a
Accommodation	0.00%
Small & medium retail	3.00%
Large retail	0.00%
Office	3.00%
Commercial services	3.00%

Step 4: Calculate the change in total floorspace required for each property type relative to current (2023) levels. This is achieved by subtracting the current (2023) floorspace from the projected floorspace in each year.

3.2.3 Land area projection by property type

This stage estimates the quantum and timing of additional land required by each property type to accommodate the estimated floorspace from the previous stage. The starting points are the 2023 estimates of total developed[2] land area segmented by property type. These have been provided by PNCC and are shown in the graph below.

Figure 8 Estimated developed land area in 2023 segmented by property type



The following steps are applied to each property type, except large industrial (see explanation in Section 3.2.6), to estimate future floorspace requirements for each growth scenario.

Step 1: Calculate floorspace per hectare of developed land to determine how intensively existing commercial zoned land is being used. The table below contains estimates of floorspace per hectare in 2023.

Table 19 Floorspace per hectare in 2023

Property type	Floorspace per hectare (sqm)
Small & medium industrial	3,106
Large industrial	3,926
Accommodation	9,034
Small & medium retail	6,373
Large retail	4,263
Commercial office	8,886
Commercial services	3,849
TOTAL	4,033

Step 2: Build projections of floorspace per hectare on land that is already developed to consider the impact of redevelopment on land use densities. This is achieved in two stages:

1. Establish baseline assumptions regarding the amount of floorspace per hectare on land that is already developed in year 30 relative to current (2023) levels.

[2] 'Developed' means the land parcel contains one or more commercial buildings.

2. Convert the assumed 30-year changes into uniform annual growth rates.

The baseline assumptions for each property type are shown in the table below. The default assumption is that floorspace per hectare on land that is already developed will be 5% higher in 30 years than it is now. This is based on the belief that some developed land parcels will be used more intensively in the future than they are now, driven mainly by infill and redevelopment of lower grade buildings. The only exception is the 'commercial office' property type, which is assumed to be redeveloped more intensively than the other property types due to the multi-level nature of such buildings (10% higher in 30 years than it is now).

Table 20 Floorspace per hectare of developed land in year 30 relative to 2023

	Base scenario
Small & medium industrial	105%
Large industrial	105%
Accommodation	105%
Small & medium retail	105%
Large retail	105%
Commercial office	110%
Commercial services	105%

Step 3: Combine the floorspace projections from the previous stage with the floorspace per hectare projections from Step 2 to estimate how much of the additional floorspace can be accommodated within developed land parcels through more intensive use of the land.

Step 4: Calculate the amount of land that would need to be developed to accommodate the surplus floorspace from Step 3. The following assumptions are made about the land use intensity of newly developed land parcels relative to land parcels that are already developed. The default assumption is that floorspace per hectare will be 5% higher on newly developed land parcels relative to land parcels that are already developed. This is based on the belief that newly developed land parcels will be developed more intensively than they have been in the past due to higher land prices and better building methods. The only exceptions are the 'accommodation' and 'commercial office' property types, which are assumed to be developed 25% more intensively in the future. The rationale for this is that these property types are more well-suited to multi-level developments than the other property types.

Table 21 Floorspace per hectare on newly developed land relative to land that is already developed

	Base scenario
Small & medium industrial	105%
Large industrial	105%
Accommodation	125%
Small & medium retail	105%
Large retail	105%
Commercial office	125%
Commercial services	105%

Step 5: Calculate the total developed land area required as the existing developed land area plus the new land requirement from Step 4.

Step 6: Calculate the change in total developed land area required for each property type relative to current (2023) levels. This is achieved by subtracting the current (2023) developed land area from the projected land area requirement in each year.

3.2.4 Land area projection by commercial zone

This stage converts the additional property type land requirements from the previous stage into additional commercial zone land requirements.

This stage is required because the relationship between property types and commercial zones is not one-to-one. For example, in 2023 around 10% of commercial offices were located on land zoned as airport or industrial, and the remaining 90% were located on land zoned as business. Additional land for commercial offices is therefore likely to impact more than one commercial zone. The table below shows the relationship between property types and commercial zones in 2023.

Table 22 Relationship between property type land parcels and commercial zones in 2023

	Commercial zone				
Property type	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Small & medium industrial	94%	6%	0%	0%	100%
Large industrial	69%	31%	0%	0%	100%
Accommodation	0%	0%	95%	5%	100%
Small & medium retail	15%	0%	84%	1%	100%
Large retail	13%	0%	87%	0%	100%
Commercial office	10%	0%	90%	0%	100%
Commercial services	24%	0%	76%	0%	100%
TOTAL	65%	9%	26%	0%	100%

The conversion of property type land to commercial zone land is based on the assumptions in the table below about which commercial zone(s) the additional property type land will be located in. These assumptions have been informed by the current relationships in Table 22 and discussions with the PNCC planning team. They are applied uniformly to all future years.

Table 23 Allocation of additional property type land to commercial zones

	Commercial zone				
Property type	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Small & medium industrial	95%	5%	0%	0%	100%
Large industrial	0%	100%	0%	0%	100%
Accommodation	0%	0%	100%	0%	100%
Small & medium retail	10%	0%	90%	0%	100%
Large retail	10%	0%	90%	0%	100%
Commercial office	10%	0%	90%	0%	100%
Commercial services	25%	0%	75%	0%	100%

3.2.5 Additional land requirement by commercial zone

This stage determines if/when future commercial zone land requirements will exceed the zoned land that is currently available. The future assessment periods are 3 years, 10 years, and 30 years as per NPS-UD requirements. The following steps are applied to each commercial zone to estimate future land requirements:

Determining the amount of land required (demand)

- Start with the additional land requirement calculated in the previous stage. This represents the amount of land that would need to be developed to accommodate the projected commercial footprint. This is referred to as the "commercial requirement".
- Add the NPS competitiveness margin which is 20% of the commercial requirement in year 3 and year 10, and 15% in year 30.
- Add the commercial requirements and NPS margins together to determine the additional land requirements in year 3, year 10, and year 30.

Determining the amount of land available (supply)

- Start with the amount of zoned land that is currently vacant commercial /undeveloped land ("gross land available").
- Divide the gross land available into two components:
  - Private land parcels - vacant zoned land that could be 100% owned by businesses.
  - Land parcels allocated to public infrastructure – vacant zoned land that would need to be used to provide public infrastructure such as roading, storm water, etc. This would generally only be required in areas that had not been fully subdivided. This land needs to be identified and separated from private land parcels because it is not able to accommodate commercial floorspace.

Calculating the difference between projected demand and supply (deficit)

- Calculate the private land parcel deficit as private land parcels available less the additional land requirement. This represents the amount of additional land that would need to be made available to accommodate the projected commercial footprint, beyond what is currently zoned for use.
- Estimate the amount of land that would need to be provisioned for public infrastructure to support the newly zoned private land parcels. This is assumed to be equivalent to 20% of the area of the private land parcels based on previous work conducted for the NEIZ. The actual percentage would depend on the nature of the land and the desired level of social amenity - higher levels of social amenity generally require more land to be assigned to non-productive uses e.g. walking and cycling, open spaces.
- Add the private land parcels and public infrastructure allocations together to determine the gross land deficit in year 3, year 10, and year 30.

Table 24 Definitions for reporting of capacity assessment results

Measure (hectares)	Definition
Additional land requirement	Area of vacant land required to meet NPS requirements
Commercial requirement	Area of vacant land required by businesses
NPS margin	NPS competitiveness margin
Gross land available	Area of vacant land currently zoned for use
Private land parcels	Area of vacant land that could be used by businesses
Public infrastructure allocation	Area of vacant land required for public infrastructure
Gross land deficit	Shortage of vacant land to accommodate projected growth
Private land parcels	Shortage of vacant land that could be used by businesses
Public infrastructure allocation	Shortage of vacant land required for public infrastructure

3.2.6 Large floor plate industrial modelling

Detailed land demand forecasts were recently produced for the NEIZ as part of the Te Utanganui project. Most, if not all large industrial developments are expected to be located within the NEIZ over the next 30 years, so the recent NEIZ modelling provides valuable insight into potential development scenarios for large floor plate industrial businesses. The decision was therefore made to integrate the results of the Te Utanganui project modelling into this NPS-UD forecasting model, rather than reproducing a forecast for large format industrial businesses. A description of the methodology used to produce the Te Utanganui projections is provided in Appendix 2.

The proposed KiwiRail freight hub, which is a core component of the Te Utanganui project, is expected to have a total land area of around 178ha based on the Notice of Requirement field by KiwiRail in 2020. This includes 50ha of NEIZ land (the remaining 128ha is rural zoned land so does not affect industrial zoned land), but it is assumed that 15ha would be leased to large industrial tenants to support rail-dependent freight and logistics operations. The net reduction in commercial land for large industrial tenants is therefore estimated to be 35ha.

3.2.7 Sensitivity analysis

Sensitivity analysis has been conducted to manage uncertainty and understand the potential range of outcomes Palmerston North city could expect over the next 30 years.

The low land demand scenario is based on the following conditions:

- Low population growth; and
- No vacant floorspace buffers; and
- Less floorspace required per capita over time relative to the base scenario; and
- More intensive development of existing land parcels over time (redevelopment); and
- New land parcels being developed at a higher density than existing land parcels (new developments)

The high land demand scenario is based on the following conditions:

- High population growth; and
- Relatively high vacancy buffers; and
- More floorspace required per capita over time relative to the base scenario; and
- No change in intensity of existing land parcels over time (redevelopment); and

- New land parcels being developed at the same density as existing land parcels (new developments)

The assumptions driving the low land demand scenario result in a commercial footprint that is smaller than the base scenario, while the assumptions driving the high land demand scenario result in a commercial footprint that is larger than the base scenario.

The sensitivity analysis provides feasible lower and upper bounds around the base scenario. We would expect future commercial land requirements to lie within this range, and to generally follow the trend of the base scenario over time.

The assumptions that drive the low and high land demand scenarios are shown in the tables below.

Table 25 Occupied floorspace per capita in year 30 relative to 2023

	Low land demand scenario	Base scenario	High land demand scenario
Small & medium industrial	95%	100%	105%
Large industrial	n/a	n/a	n/a
Accommodation	100%	110%	120%
Small & medium retail	95%	100%	105%
Large retail	95%	100%	105%
Commercial office	90%	100%	105%
Commercial services	95%	100%	105%

Table 26 Vacant floorspace buffer by property type

	Low land demand scenario	Base scenario	High land demand scenario
Small & medium industrial	0.00%	3.00%	5.00%
Large industrial	n/a	n/a	n/a
Accommodation	0.00%	0.00%	0.00%
Small & medium retail	0.00%	3.00%	5.00%
Large retail	0.00%	0.00%	0.00%
Commercial office	0.00%	3.00%	5.00%
Commercial services	0.00%	3.00%	5.00%

Table 27 Floorspace per hectare of developed land in year 30 relative to 2023

	Low land demand scenario	Base scenario	High land demand scenario
Small & medium industrial	110%	105%	100%
Large industrial	110%	105%	100%
Accommodation	110%	105%	100%
Small & medium retail	110%	105%	100%
Large retail	110%	105%	100%
Commercial office	120%	110%	100%
Commercial services	110%	105%	100%

Table 28 Floorspace per hectare on newly developed land relative to land that is already developed

	Low land demand scenario	Base scenario	High land demand scenario
Small & medium industrial	110%	105%	100%
Large industrial	110%	105%	100%
Accommodation	150%	125%	100%
Small & medium retail	110%	105%	100%
Large retail	110%	105%	100%
Commercial office	150%	125%	100%
Commercial services	110%	105%	100%

4 Property type outputs

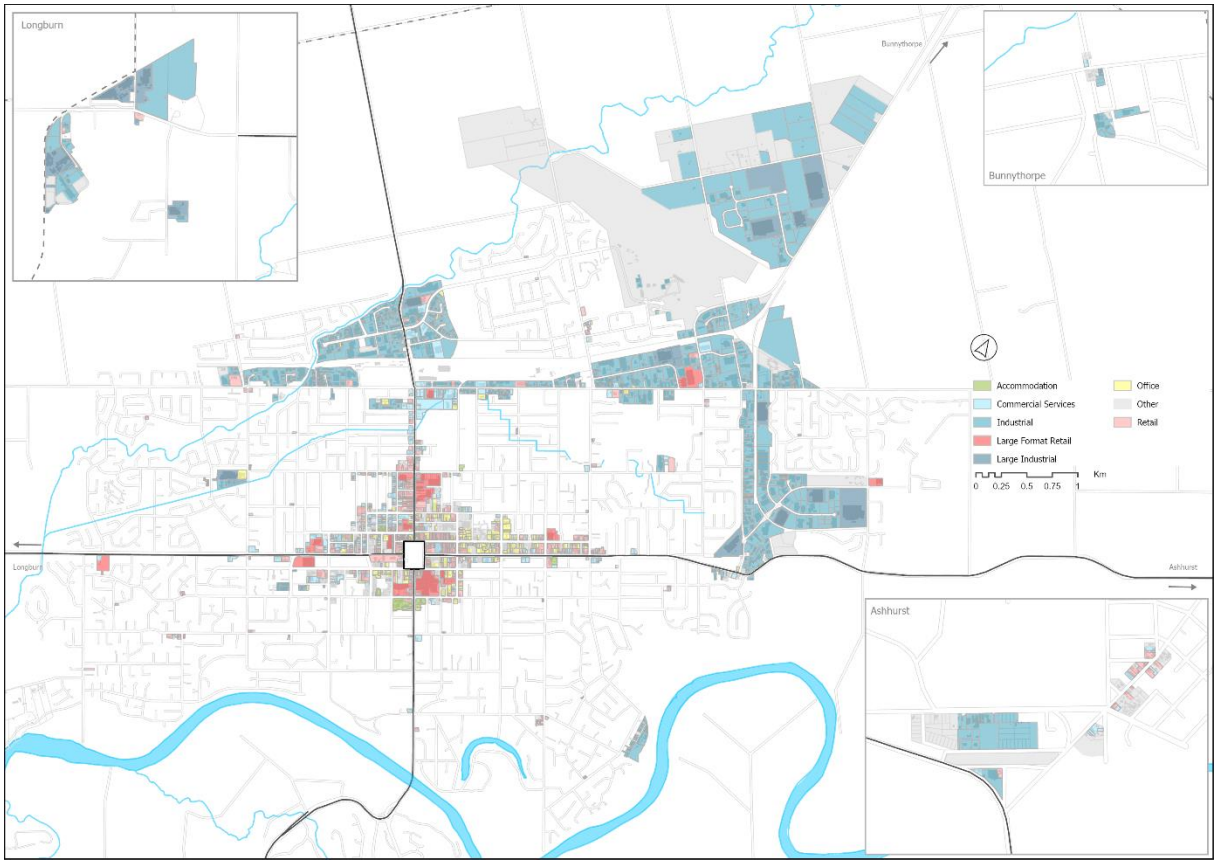
This section provides floorspace and land area projections for Palmerston North city segmented by the following property types:

- Small & medium industrial (up to 11,000 sqm of floorspace)
- Large floor plate industrial (more than 11,000 sqm of floorspace)
- Accommodation
- Small & medium retail (up to 3,900 sqm of floorspace)
- Large format retail (more than 3,900 sqm of floorspace)
- Commercial office
- Commercial services

The base (2023) floorspace and developed land area values have been provided by Palmerston North City Council.

The map below shows the locations of the land parcels occupied by each property type in 2023.

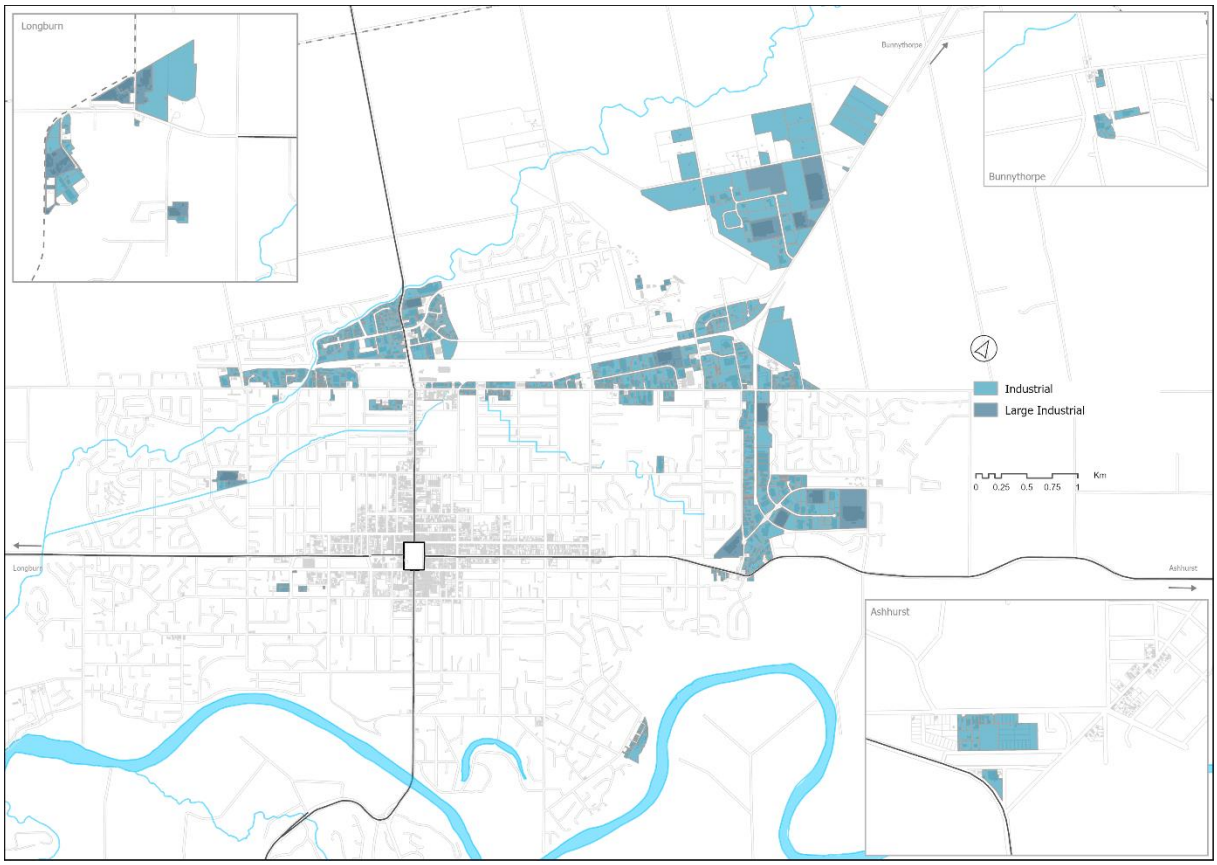
Figure 9 Land parcels by property type in 2023



4.1 Small & medium industrial businesses

The map below shows the locations of the land parcels occupied by small & medium industrial businesses in 2023 (described as "Industrial" in the legend). Land parcels occupied by large industrial businesses are also shown for context.

Figure 10 Small & medium industrial business land parcels in 2023



The table below shows floorspace and land areas for small & medium industrial businesses in 2023 segmented by the commercial zones they are located within.

Table 29 Location of existing small & medium industrial businesses in 2023

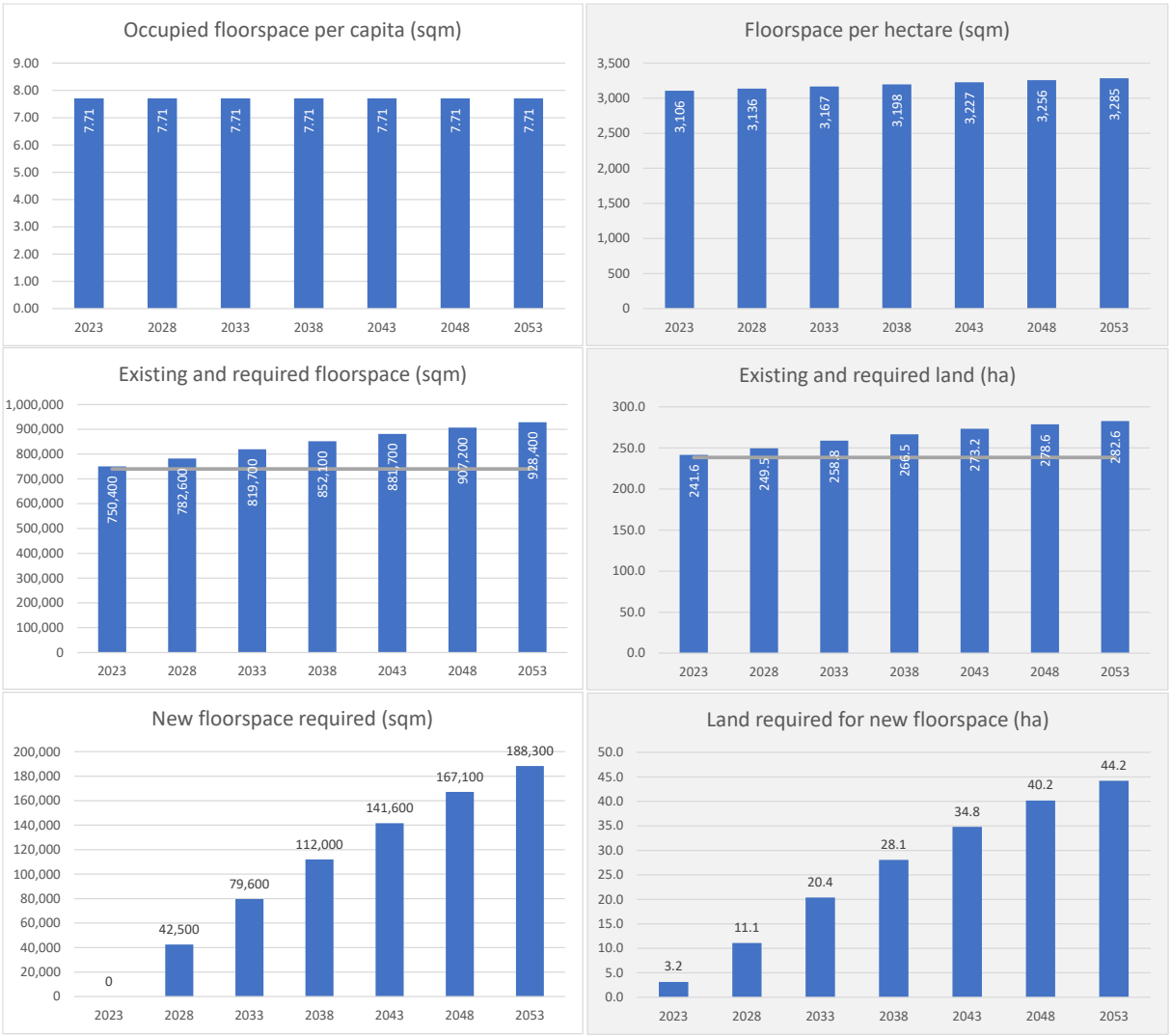
Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	706,792	33,333	0	0	740,125
Occupied floorspace (sqm)	694,554	33,333	0	0	727,887
Developed land area (ha)	223.1	15.4	0.0	0.0	238.4

4.1.1 Key results for small & medium industrial businesses

The key results for the base scenario are:

- Required floorspace per capita projected to remain unchanged at 7.71 sqm across the forecast period.
- Required floorspace projected to increase from 750,400 sqm in 2023 to 928,400 sqm in 2053 (+24%).
- 188,300 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 3,106 sqm in 2023 to 3,285 sqm in 2053 (+6%).
- Required land projected to increase from 241.6 ha in 2023 to 282.6 ha in 2053 (+17%).
- 44.2 ha of land required for new floorspace by 2053.

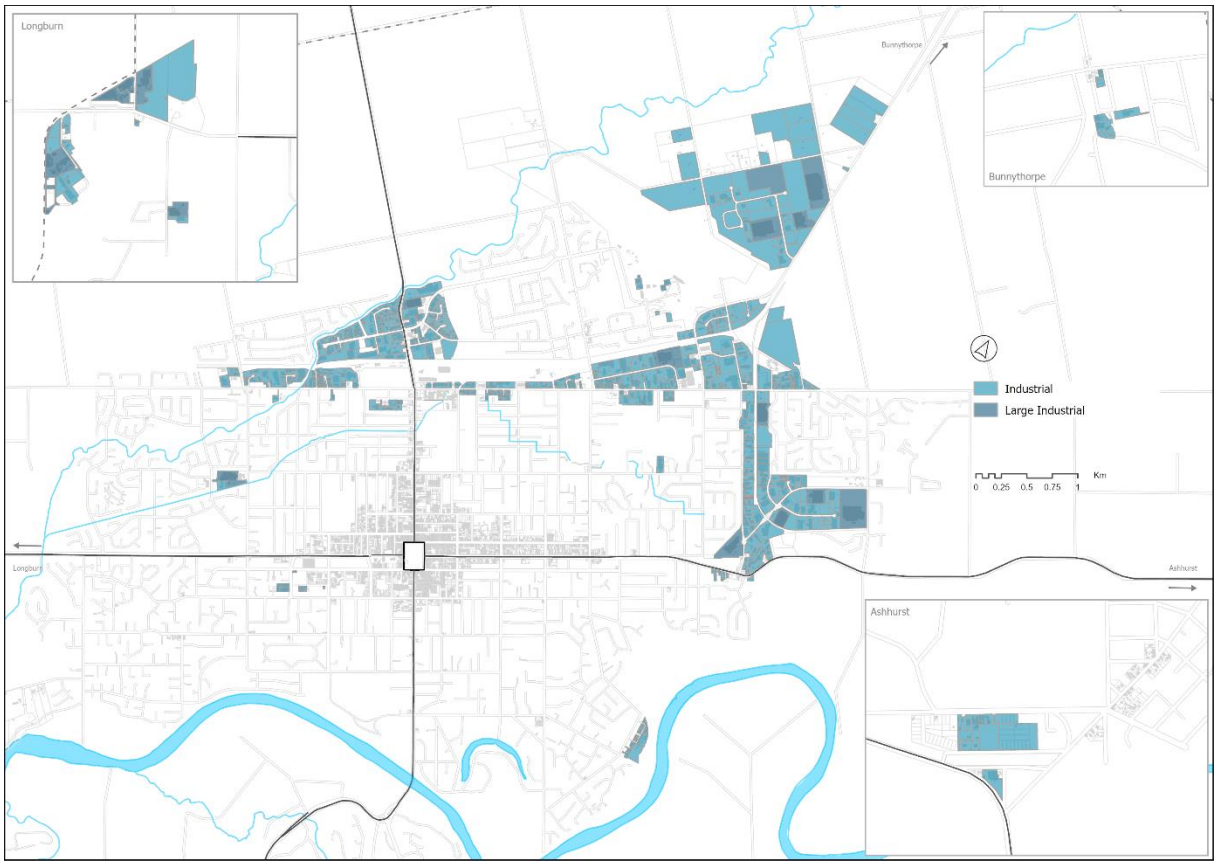
Figure 11 Summary of modelled results for small & medium industrial businesses



4.2 Large industrial businesses

The map below shows the locations of the land parcels occupied by large industrial businesses in 2023 (described as “Large industrial” in the legend). Land parcels occupied by small & medium industrial businesses (described as “Industrial in the legend) are also shown for context.

Figure 12 Large industrial business land parcels in 2023



The table below shows floorspace and land areas for large industrial businesses in 2023 segmented by the commercial zones they are located within.

Table 30 Location of existing large industrial businesses in 2023

Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	228,998	112,969	0	0	341,967
Occupied floorspace (sqm)	228,998	112,969	0	0	341,967
Developed land area (ha)	59.8	27.3	0.0	0.0	87.1

4.2.1 Key results for large industrial businesses

The key results for the base scenario are:

- Required floorspace per capita projected to increase from 3.62 sqm in 2023 to 6.77 sqm in 2053 (+87%). This is driven by the Te Utanganui modelling which assumes that Palmerston North will become a nationally significant distribution hub for the lower North Island.
- Required floorspace projected to increase from 342,000 sqm in 2023 to 790,600 sqm in 2053 (+131%).
- 448,600 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 3,926 sqm in 2023 to 4,232 sqm in 2053 (+8%).
- Required land projected to increase from 87.1 ha in 2023 to 186.8 ha in 2053 (+100%).
- 99.7 ha of land required for new floorspace by 2053.

Figure 13 Summary of modelled results for large industrial businesses

4.3 Accommodation businesses

The map below shows the locations of the land parcels occupied by accommodation businesses in 2023 within the three commercial zones considered in this study.

Figure 14 Accommodation business land parcels in 2023

The table below shows floorspace and land areas for accommodation businesses in 2023 segmented by the commercial zones they are located within.

Table 31 Location of existing accommodation businesses in 2023

Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	0	0	43,831	1,170	45,001
Occupied floorspace (sqm)	0	0	42,111	1,170	43,281
Developed land area (ha)	0.0	0.0	4.7	0.3	5.0

4.3.1 Key results for accommodation businesses

The key results for the base scenario are:

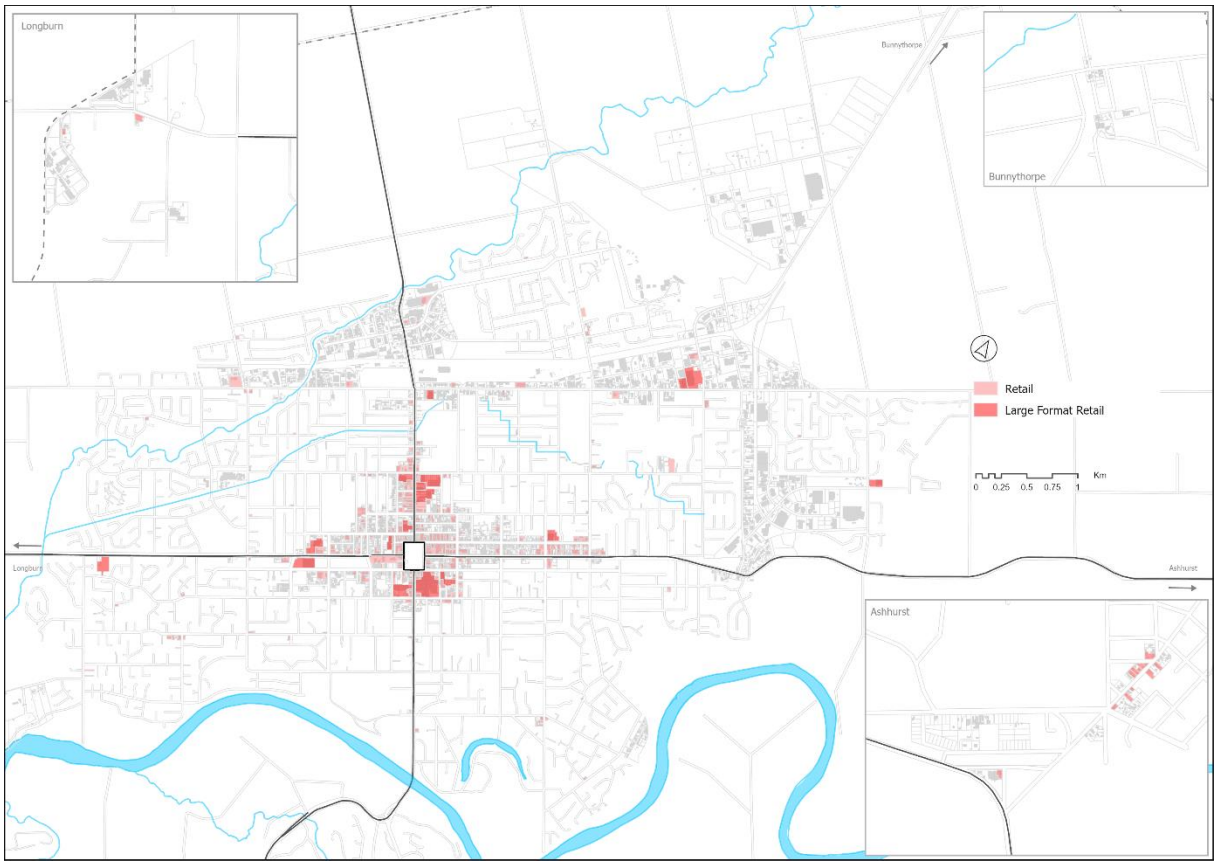
- Required floorspace per capita projected to increase from 0.46 sqm in 2023 to 0.50 sqm in 2053 (+10%).
- Required floorspace projected to increase from 43,300 sqm in 2023 to 58,900 sqm in 2053 (+36%).
- 13,900 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 9,034 sqm in 2023 to 9,876 sqm in 2053 (+9%).
- Required land projected to increase from 4.8 ha in 2023 to 6.0 ha in 2053 (+24%).
- 1 ha of land required for new floorspace by 2053.

Figure 15 Summary of modelled results for accommodation businesses

4.4 Small & medium retail businesses

The map below shows the locations of the land parcels occupied by small & medium retail businesses in 2023 (described as "Retail" in the legend). Land parcels occupied by large format retail businesses are also shown for context.

Figure 16 Small & medium retail business land parcels in 2023



The table below shows floorspace and land areas for small & medium retail businesses in 2023 segmented by the commercial zones they are located within.

Table 32 Location of existing small and medium retail businesses in 2023

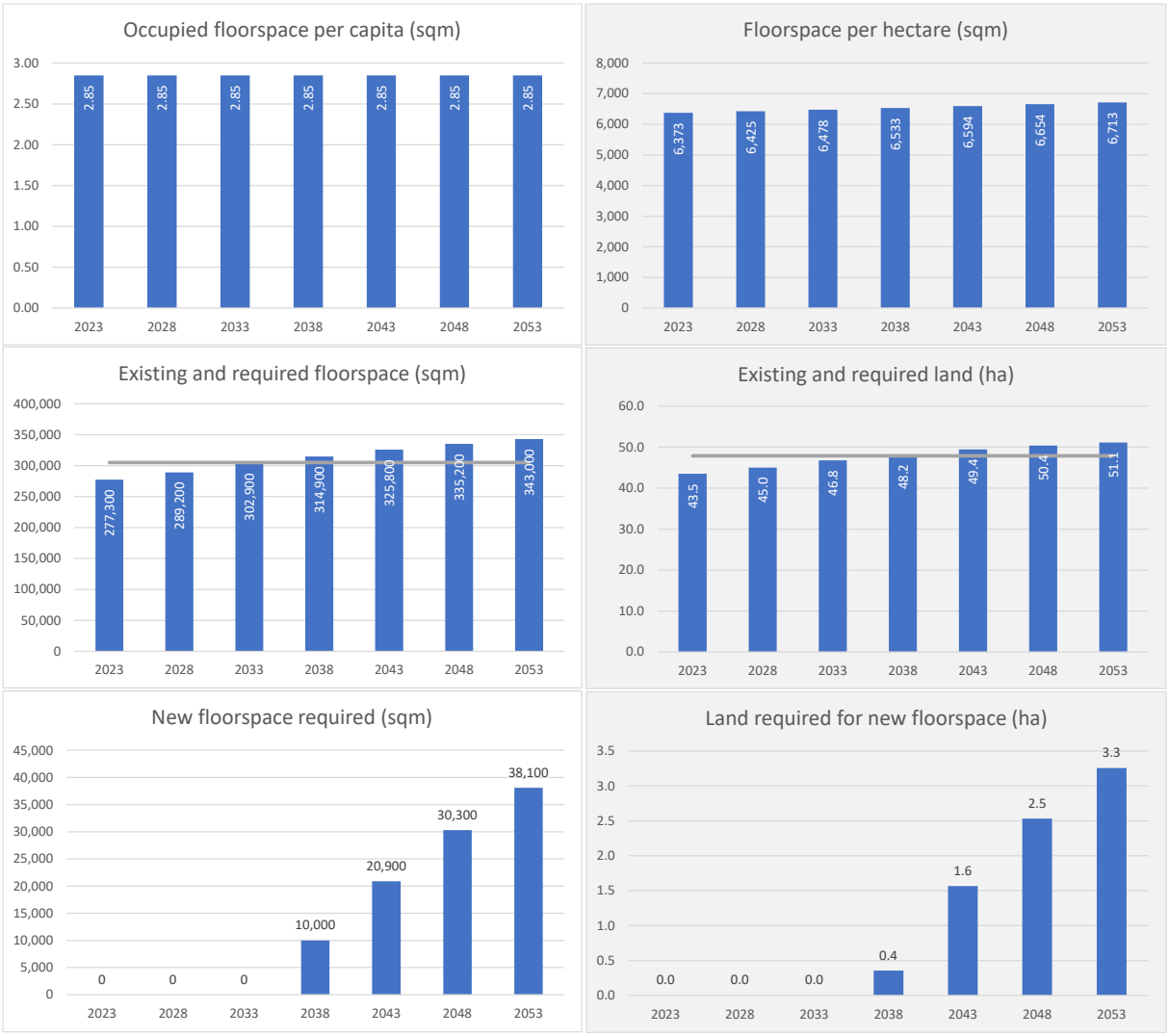
Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	21,374	0	282,070	1,469	304,913
Occupied floorspace (sqm)	20,362	0	247,136	1,469	268,967
Developed land area (ha)	7.2	0.0	40.1	0.5	47.8

4.4.1 Key results for small & medium retail businesses

The key results for the base scenario are:

- Required floorspace per capita projected to remain unchanged at 2.85 sqm across the forecast period.
- Required floorspace projected to increase from 277,300 sqm in 2023 to 343,000 sqm in 2053 (+24%).
- 38,100 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 6,373 sqm in 2023 to 6,713 sqm in 2053 (+5%).
- Required land projected to increase from 43.5 ha in 2023 to 51.1 ha in 2053 (+17%).
- 3.3 ha of land required for new floorspace by 2053.

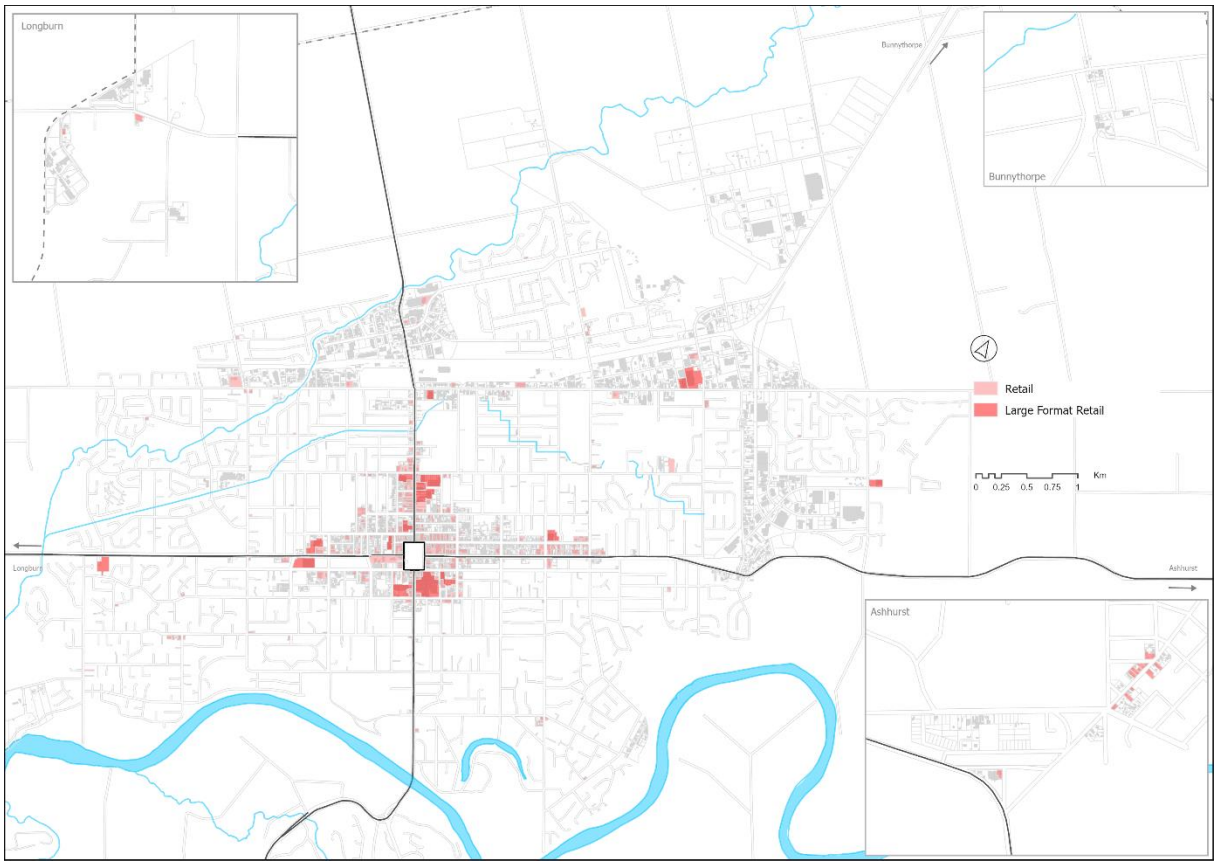
Figure 17 Summary of modelled results for small & medium retail businesses



4.5 Large retail businesses

The map below shows the locations of the land parcels occupied by large retail businesses in 2023 (described as “Large format retail” in the legend). Land parcels occupied by small & medium format retail businesses (described as “Retail” in the legend) are also shown for context.

Figure 18 Large retail business land parcels in 2023



The table below shows floorspace and land areas for large retail businesses in 2023 segmented by the commercial zones they are located within.

Table 33 Location of existing large retail businesses in 2023

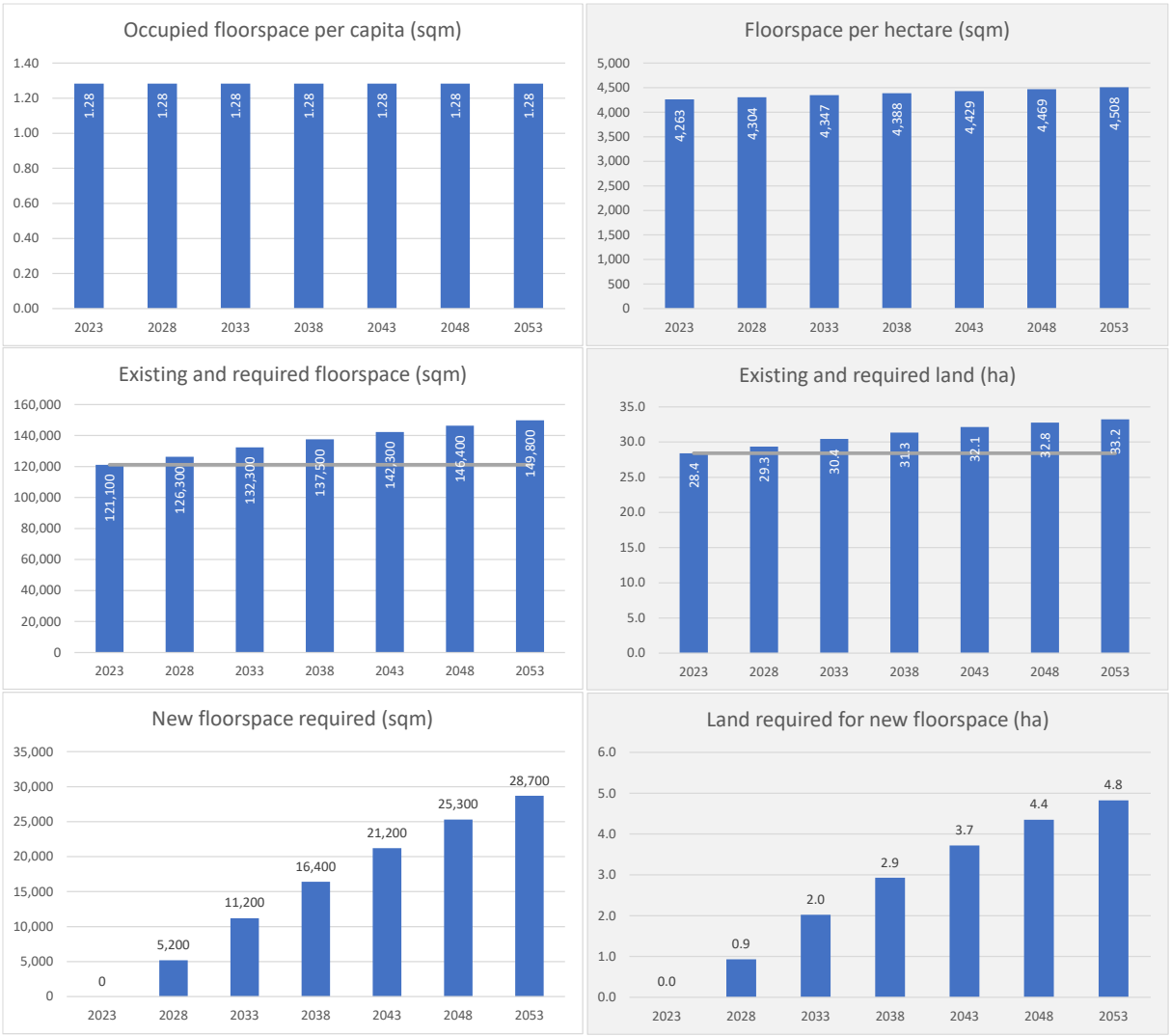
Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	13,987	0	107,116	0	121,103
Occupied floorspace (sqm)	13,987	0	107,116	0	121,103
Developed land area (ha)	3.8	0.0	24.6	0.0	28.4

4.5.1 Key results for large retail businesses

The key results for the base scenario are:

- Required floorspace per capita projected to remain unchanged at 1.28 sqm across the forecast period.
- Required floorspace projected to increase from 121,100 sqm in 2023 to 149,800 sqm in 2053 (+24%).
- 28,700 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 4,263 sqm in 2023 to 4,508 sqm in 2053 (+6%).
- Required land projected to increase from 28.4 ha in 2023 to 33.2 ha in 2053 (+17%).
- 4.8 ha of land required for new floorspace by 2053.

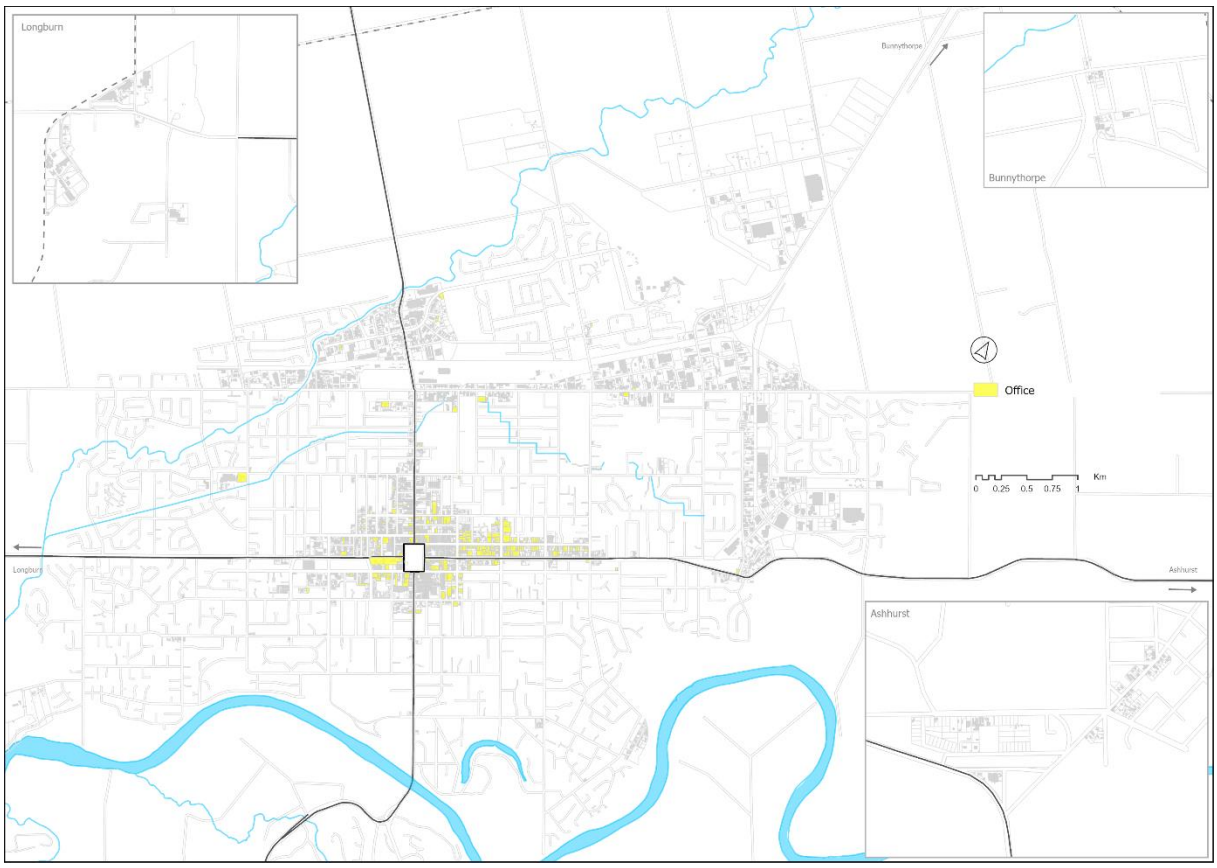
Figure 19 Summary of modelled results for large retail businesses



4.6 Commercial offices

The map below shows the locations of the land parcels occupied by commercial offices in 2023.

Figure 20 Commercial office land parcels in 2023



The table below shows floorspace and land areas for commercial offices in 2023 segmented by the commercial zones they are located within.

Table 34 Location of existing commercial offices in 2023

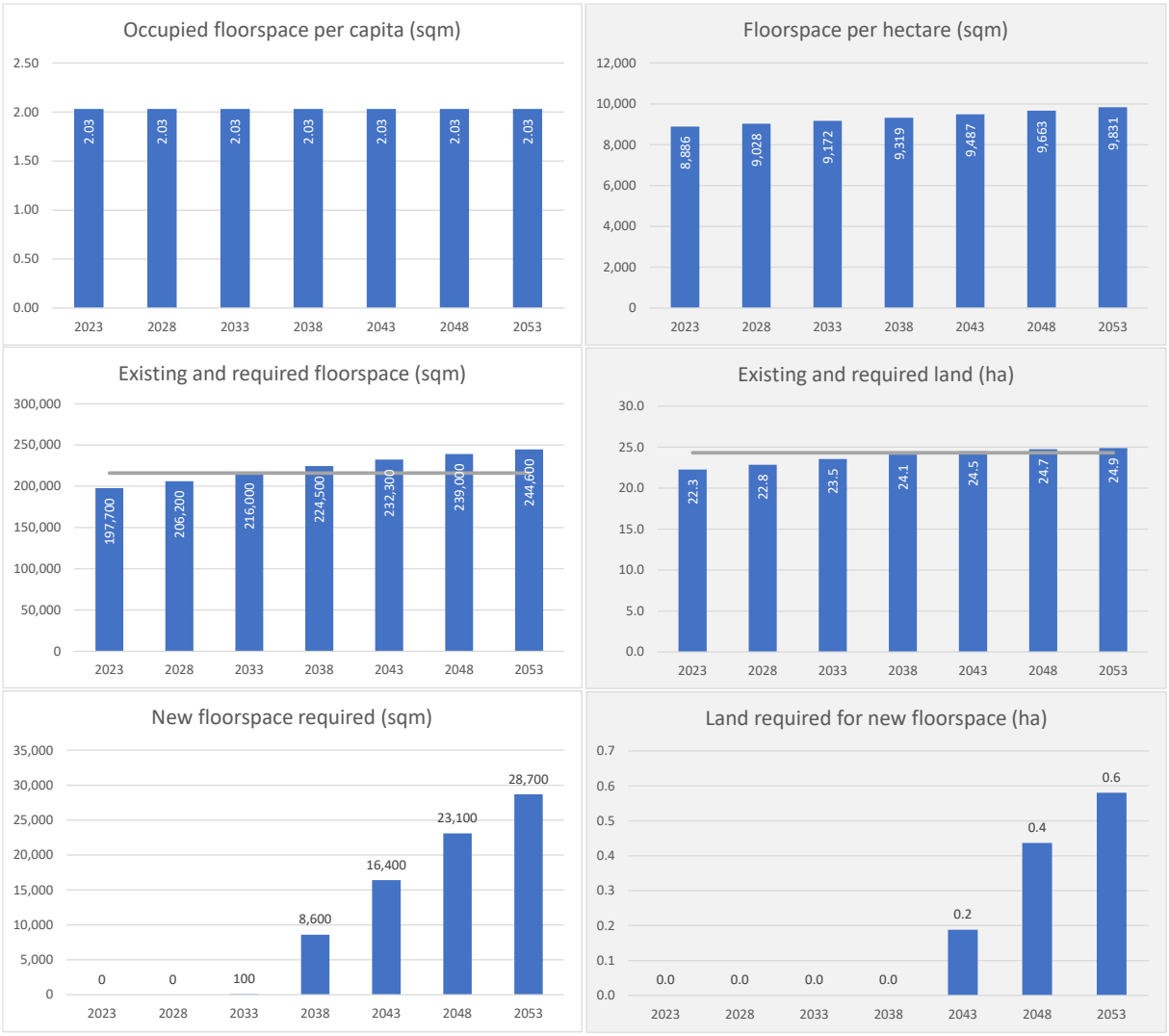
Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	11,720	0	204,201	0	215,921
Occupied floorspace (sqm)	11,720	0	180,061	0	191,781
Developed land area (ha)	2.5	0.0	21.8	0.0	24.3

4.6.1 Key results for commercial offices

The key results for the base scenario are:

- Required floorspace per capita projected to remain unchanged at 2.03 sqm across the forecast period.
- Required floorspace projected to increase from 197,700 sqm in 2023 to 244,600 sqm in 2053 (+24%).
- 28,700 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 8,886 sqm in 2023 to 9,831 sqm in 2053 (+11%).
- Required land projected to increase from 22.3 ha in 2023 to 24.9 ha in 2053 (+12%).
- 0.6 ha of land required for new floorspace by 2053.

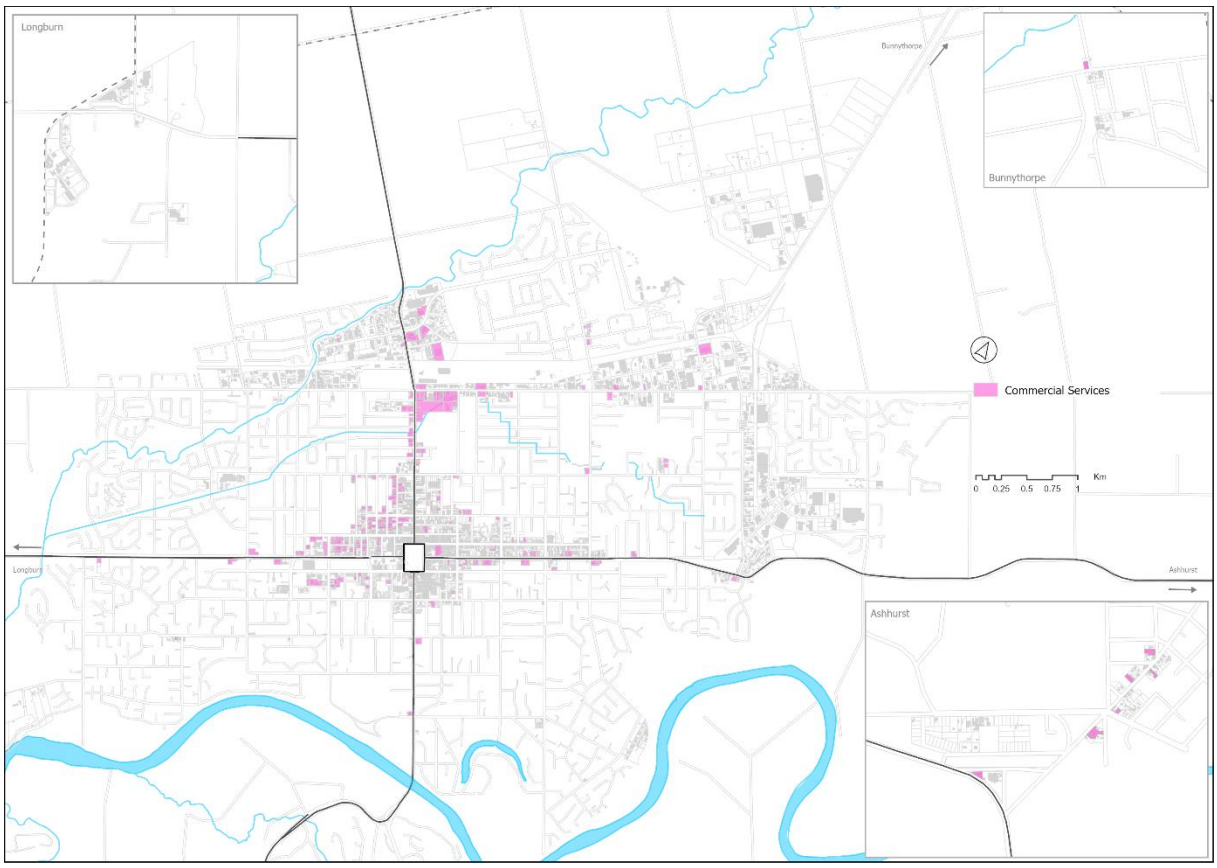
Figure 21 Summary of modelled results for commercial offices



4.7 Commercial service businesses

The map below shows the locations of the land parcels occupied by commercial service businesses in 2023.

Figure 22 Commercial service land parcels in 2023



The table below shows floorspace and land areas for other commercial service businesses in 2023 segmented by the commercial zones they are located within.

Table 35 Location of commercial service businesses in 2023

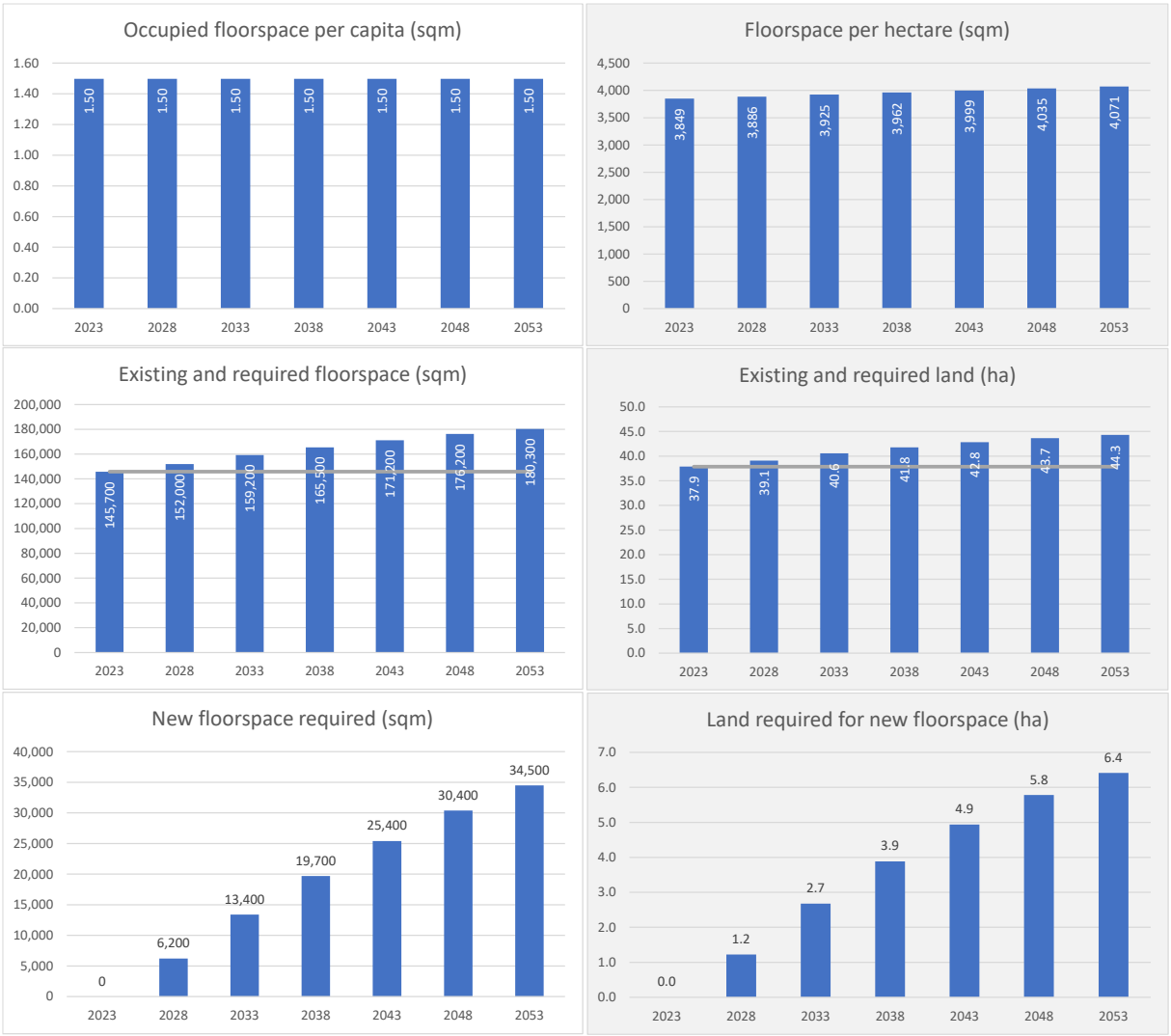
Measure	Airport & industrial zones	NEIZ	Business zones	Out of zone	TOTAL
Total floorspace (sqm)	26,177	0	119,620	0	145,797
Occupied floorspace (sqm)	26,177	0	115,182	0	141,359
Developed land area (ha)	9.1	0.0	28.8	0.0	37.9

4.7.1 Key results for commercial service businesses

The key results for the base scenario are:

- Required floorspace per capita projected to remain unchanged at 1.50 sqm across the forecast period.
- Required floorspace projected to increase from 145,700 sqm in 2023 to 180,300 sqm in 2053 (+24%).
- 34,500 sqm of new floorspace required by 2053.
- Floorspace per hectare projected to increase from 3,849 sqm in 2023 to 4,071 sqm in 2053 (+6%).
- Required land projected to increase from 37.9 ha in 2023 to 44.3 ha in 2053 (+17%).
- 6.4 ha of land required for new floorspace by 2053.

Figure 23 Summary of modelled results for other commercial service businesses



5 Commercial zone results

This section converts the additional property type land requirements from the previous section into additional land requirements for the following commercial zones:

- Airport & industrial zones (aggregated)
- NEIZ
- Business zones (aggregated)

The process thereafter involves:

- Adding the NPS competitiveness margin to determine the total additional land requirement for each commercial zone in each NPS period ("Additional land requirement").
- Determining the amount of land currently available for development in each commercial zone in each NPS period ("Gross land available").
- Calculating the projected shortage of land in each commercial zone in each NPS period, if any ("Gross land deficit").

The base (2023) land availability values have been provided by Palmerston North City Council (see Table 14).

The conversion of property type land to commercial zone land is based on the assumptions in the table below about which commercial zone(s) the additional property type land will be located in (same as Table 23). These assumptions have been informed by current relationships (see Table 22) and discussions with the PNCC planning team. They are applied uniformly to all future years.

Table 36 Allocation of additional property type land to commercial zones

	Commercial zone				
Property type	Airport & industrial	NEIZ	Business	Out of zone	TOTAL
Small & medium industrial	95%	5%	0%	0%	100%
Large industrial	0%	100%	0%	0%	100%
Accommodation	0%	0%	100%	0%	100%
Small & medium retail	10%	0%	90%	0%	100%
Large retail	10%	0%	90%	0%	100%
Commercial office	10%	0%	90%	0%	100%
Commercial services	25%	0%	75%	0%	100%

5.1 Airport & industrial zones

5.1.1 Total land requirement in airport & industrial zones

The key results for the base scenario are:

- Total commercial requirement of 7.5 hectares of additional land in Year 3, 20.2 hectares in Year 10, and 44.5 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 8.9 hectares in Year 3, 24.3 hectares in Year 10, and 51.1 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Table 37 Demand projections for land in airport & industrial zones (hectares)

Property type	3 years	10 years	30 years
Small & medium industrial	7.2	19.3	42.0
Large industrial	0.0	0.0	0.0
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.0	0.3
Large retail	0.1	0.2	0.5
Commercial office	0.0	0.0	0.1
Commercial services	0.2	0.7	1.6
Total commercial requirement	**7.5**	**20.2**	**44.5**
NPS margin	1.5	4.0	6.7
Additional land requirement	**8.9**	**24.3**	**51.1**

5.1.2 Capacity assessment for airport & industrial zones

The results of the capacity assessment indicate that the 66.4 hectares of available zoned land will be sufficient to accommodate projected commercial requirements in all periods considered, including associated public infrastructure requirements.

Table 38 Capacity assessment for land in airport & industrial zones (hectares)

	3 years	10 years	30 years
Additional commercial land requirement	8.9	24.3	51.1
Commercial requirement	7.5	20.2	44.5
NPS margin	1.5	4.0	6.7
Commercial zoned land available in 2023*	66.4	66.4	66.4
Private land parcels	63.5	63.5	63.5
Public infrastructure allocation	2.9	2.9	2.9
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**
Private land parcels	**0.0**	**0.0**	**0.0**
Public infrastructure allocation	**0.0**	**0.0**	**0.0**

* Excludes net loss of 33.5ha of land zoned Braeburn Industrial Area. This land 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.

5.2 NEIZ

5.2.1 Total land requirement in NEIZ

The key results for the base scenario are:

- Total commercial requirement of 12 hectares of additional land in Year 3, 35 hectares in Year 10, and 101.9 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 14.4 hectares in Year 3, 42 hectares in Year 10, and 117.2 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Table 39 Demand projections for land in NEIZ (hectares)

Property type	3 years	10 years	30 years
Small & medium industrial	0.4	1.0	2.2
Large industrial	11.6	33.9	99.7
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.0	0.0
Large retail	0.0	0.0	0.0
Commercial office	0.0	0.0	0.0
Commercial services	0.0	0.0	0.0
Total commercial requirement	**12.0**	**35.0**	**101.9**
NPS margin	2.4	7.0	15.3
Additional land requirement	**14.4**	**42.0**	**117.2**

5.2.2 Capacity assessment for NEIZ

The results of the capacity assessment indicate that the 145.9 hectares of available zoned land will be sufficient to accommodate projected commercial requirements in all periods considered, including associated public infrastructure requirements.

Table 40 Capacity assessment for land in NEIZ (hectares)

	3 years	10 years	30 years
Additional commercial land requirement	14.4	42.0	117.2
Commercial requirement	12.0	35.0	101.9
NPS margin	2.4	7.0	15.3
Commercial zoned land available in 2023*	145.9	145.9	145.9
Private land parcels	127.3	127.3	127.3
Public infrastructure allocation	18.6	18.6	18.6
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**
Private land parcels	**0.0**	**0.0**	**0.0**
Public infrastructure allocation	**0.0**	**0.0**	**0.0**

* Excludes net loss of 35ha of NEIZ land to KiwiRail freight hub. See section 3.2.6 for more information.

5.3 Business zones

5.3.1 Total land requirement in business zones

The key results for the base scenario are:

- Total commercial requirement of 1 hectare of additional land in Year 3, 4.1 hectares in Year 10, and 13.6 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 1.2 hectares in Year 3, 4.9 hectares in Year 10, and 15.6 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Table 41 Demand projections for land in business zones (hectares)

Property type	3 years	10 years	30 years
Small & medium industrial	0.0	0.0	0.0
Large industrial	0.0	0.0	0.0
Accommodation	0.0	0.3	1.0
Small & medium retail	0.0	0.0	2.9
Large retail	0.5	1.8	4.3
Commercial office	0.0	0.0	0.5
Commercial services	0.5	2.0	4.8
Total commercial requirement	**1.0**	**4.1**	**13.6**
NPS margin	0.2	0.8	2.0
Additional land requirement	**1.2**	**4.9**	**15.6**

5.3.2 Capacity assessment for business zones

The results of the capacity assessment indicate that the 19 hectares of available zoned land will be sufficient to accommodate projected commercial requirements in all periods considered, including associated public infrastructure requirements.

Table 42 Capacity assessment for land in business zones (hectares)

	3 years	10 years	30 years
Additional commercial land requirement	1.2	4.9	15.6
Commercial requirement	1.0	4.1	13.6
NPS margin	0.2	0.8	2.0
Commercial zoned land available in 2023	19.0	19.0	19.0
Private land parcels	19.0	19.0	19.0
Public infrastructure allocation	0.0	0.0	0.0
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**
Private land parcels	**0.0**	**0.0**	**0.0**
Public infrastructure allocation	**0.0**	**0.0**	**0.0**

5.4 Comparison with previous NPS-UD projections

The previous NPS-UD projections for Palmerston North city were produced by Property Economics in 2018. It is difficult to compare the current projections with those produced by Property Economics due to material differences in modelling and reporting approaches. However, the Property Economics report predicted the need for more industrial and business zoned land within the forecasting horizon, while the current projections indicate that there is sufficient industrial and business zoned land to meet all commercial requirements for the next 30 years. These opposing conclusions appear to be driven by the following differences in modelling approaches:

- Property Economics assumed that existing floorspace was operating at maximum productivity for retail and commercial service properties such that any extra demand would require new floorspace. The current projections assume that (a) vacant properties will absorb additional demand until the optimal vacancy rate is achieved. This may require the redevelopment of B and C grade buildings that are currently difficult to tenant; and (b) businesses will use floorspace more efficiently over time due to scale economies and higher occupancy costs. The cumulative outcome of these effects is an additional floorspace requirement that sits comfortably below the projected change in demand in percentage terms.
- Property Economics has assumed that current land use intensity (floorspace per hectare) will persist for the next 30 years. The current projections assume that (a) the land use intensity of developed land parcels will gradually increase as infill/redevelopment occurs; and (b) new developments will be built at a higher density than existing developments due to higher land and building costs. The cumulative outcome of these effects is an additional land requirement that sits comfortably below the projected additional floorspace requirement in percentage terms.

When extended across 30 years, these differences in modelling approaches result in materially different floorspace and land projections.

6 Sensitivity analysis

Sensitivity analysis has been conducted to manage uncertainty and understand the potential range of outcomes Palmerston North city could expect over the next 30 years.

The sensitivity analysis provides feasible lower (low land demand scenario) and upper (high land demand scenario) bounds around the base scenario. We would expect future commercial land requirements to lie within this range, and to generally follow the trend of the base scenario over time. **The most likely demand scenario for commercial land, as per NPS-UD tier 2 requirements, is therefore the base scenario.**

The assumptions driving the low land demand scenario result in a commercial footprint that is smaller than the base growth scenario, while the assumptions driving the high land demand scenario result in a commercial footprint that is larger than the base scenario. A summary of the sensitivity analysis assumptions is presented in the table below.

Table 43 Summary of sensitivity analysis assumptions

Driver	Reference	Low land demand scenario	High land demand scenario
Population growth	Table 15	Low	High
Occupied floorspace per capita relative to base scenario	Table 25	Low	High
Vacancy buffers	Table 26	Low	High
Floorspace per hectare of developed land in year 30 relative to 2023	Table 27	High	Low
Floorspace per hectare on newly developed land relative to land that is already developed	Table 28	High	Low

6.1 Low land demand scenario

6.1.1 Airport & industrial zones

The results for the low land demand scenario indicate that no additional land will be required within the forecasting period i.e. future demand can be accommodated within the existing commercial footprint.

Table 44 Demand projections for land in airport & industrial zones (hectares) – low land demand scenario

Property type	3 years	10 years	30 years
Small & medium industrial	0.0	0.0	0.0
Large industrial	0.0	0.0	0.0
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.0	0.0
Large retail	0.0	0.0	0.0
Commercial office	0.0	0.0	0.0
Commercial services	0.0	0.0	0.0
Total commercial requirement	**0.0**	**0.0**	**0.0**
NPS margin	0.0	0.0	0.0
Additional land requirement	**0.0**	**0.0**	**0.0**

The results of the capacity assessment indicate that none of the 66.4 hectares of available zoned land would need to be developed to accommodate future growth.

Table 45 Capacity assessment for land in airport & industrial zones (hectares) – low land demand scenario

	3 years	10 years	30 years
Additional commercial land requirement	0.0	0.0	0.0
Commercial requirement	0.0	0.0	0.0
NPS margin	0.0	0.0	0.0
Commercial zoned land available in 2023*	66.4	66.4	66.4
Private land parcels	63.5	63.5	63.5
Public infrastructure allocation	2.9	2.9	2.9
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**
Private land parcels	**0.0**	**0.0**	**0.0**
Public infrastructure allocation	**0.0**	**0.0**	**0.0**

* Excludes net loss of 33.5ha of land zoned Braeburn Industrial Area. This land 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.

6.1.2 NEIZ

The key results for the low land demand scenario are:

- Total commercial requirement of 7.7 hectares of additional land in Year 3, 20.6 hectares in Year 10, and 49.9 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 9.3 hectares in Year 3, 24.8 hectares in Year 10, and 57.3 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Table 46 Demand projections for land in NEIZ (hectares) – low land demand scenario

Property type	3 years	10 years	30 years
Small & medium industrial	0.0	0.0	0.0
Large industrial	7.7	20.6	49.9
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.0	0.0
Large retail	0.0	0.0	0.0
Commercial office	0.0	0.0	0.0
Commercial services	0.0	0.0	0.0
Total commercial requirement	**7.7**	**20.6**	**49.9**
NPS margin	1.5	4.1	7.5
Additional land requirement	**9.3**	**24.8**	**57.3**

The results of the capacity assessment indicate that the 145.9 hectares of available zoned land will be sufficient to accommodate projected commercial requirements in all periods considered, including associated public infrastructure requirements.

Table 47 Capacity assessment for land in NEIZ (hectares) – low land demand scenario

	3 years	10 years	30 years
Additional commercial land requirement	9.3	24.8	57.3
Commercial requirement	7.7	20.6	49.9
NPS margin	1.5	4.1	7.5
Commercial zoned land available in 2023*	145.9	145.9	145.9
Private land parcels	127.3	127.3	127.3
Public infrastructure allocation	18.6	18.6	18.6
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**
Private land parcels	**0.0**	**0.0**	**0.0**
Public infrastructure allocation	**0.0**	**0.0**	**0.0**

* Excludes net loss of 35ha of NEIZ land to KiwiRail freight hub. See section 3.2.6 for more information.

6.1.3 Business zones

The results for the low land demand scenario show only a very small requirement for 0.1 hectares of additional land in Year 10. However, this requirement is not present in Year 30 due to gains in land use efficiency.

Demand projections for land in business zones (hectares) – low land demand scenario

Property type	3 years	10 years	30 years
Small & medium industrial	0.0	0.0	0.0
Large industrial	0.0	0.0	0.0
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.0	0.0
Large retail	0.0	0.1	0.0
Commercial office	0.0	0.0	0.0
Commercial services	0.0	0.0	0.0
Total commercial requirement	**0.0**	**0.1**	**0.0**
NPS margin	0.0	0.0	0.0
Additional land requirement	**0.0**	**0.1**	**0.0**

The results of the capacity assessment indicate that the 19 hectares of available zoned land will be sufficient to accommodate projected commercial requirements in all periods considered, including associated public infrastructure requirements.

Table 48 Capacity assessment for land in business zones (hectares) – low land demand scenario

	3 years	10 years	30 years
Additional commercial land requirement	0.0	0.1	0.0
Commercial requirement	0.0	0.1	0.0
NPS margin	0.0	0.0	0.0
Commercial zoned land available in 2023	19.0	19.0	19.0
Private land parcels	19.0	19.0	19.0
Public infrastructure allocation	0.0	0.0	0.0
Commercial zoned land deficit	**0.0**	**0.0**	**0.0**
Private land parcels	**0.0**	**0.0**	**0.0**
Public infrastructure allocation	**0.0**	**0.0**	**0.0**

6.2 High land demand scenario

6.2.1 Airport & industrial zones

The key results for the high land demand scenario are:

- Total commercial requirement of 17.8 hectares of additional land in Year 3, 45.2 hectares in Year 10, and 108.8 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 21.4 hectares in Year 3, 54.2 hectares in Year 10, and 125.1 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Demand projections for land in airport & industrial zones (hectares) – high land demand scenario

Property type	3 years	10 years	30 years
Small & medium industrial	17.2	42.7	101.5
Large industrial	0.0	0.0	0.0
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.3	1.4
Large retail	0.1	0.4	1.1
Commercial office	0.0	0.2	0.7
Commercial services	0.6	1.6	4.0
Total commercial requirement	**17.8**	**45.2**	**108.8**
NPS margin	3.6	9.0	16.3
Additional land requirement	**21.4**	**54.2**	**125.1**

The results of the capacity assessment indicate that the 66.4 hectares of available zoned land would be sufficient to accommodate short and medium-term growth, but that an additional 15.4 ha of land would need to be zoned to accommodate long-term growth. Under this scenario the 66.4 hectares of available land would be fully utilised in Year 14 (2037).

Table 49 Capacity assessment for land in airport & industrial zones (hectares) – high land demand scenario

	3 years	10 years	30 years
Additional commercial land requirement	21.4	54.2	125.1
Commercial requirement	17.8	45.2	108.8
NPS margin	3.6	9.0	16.3
Commercial zoned land available in 2023*	66.4	66.4	66.4
Private land parcels	63.5	63.5	63.5
Public infrastructure allocation	2.9	2.9	2.9
Commercial zoned land deficit	**0.0**	**0.0**	**77.1**
Private land parcels	**0.0**	**0.0**	**61.7**
Public infrastructure allocation	**0.0**	**0.0**	**15.4**

* Excludes net loss of 33.5ha of land zoned Braeburn Industrial Area. This land 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.

6.2.2 NEIZ

The key results for the high land demand scenario are:

- Total commercial requirement of 16.4 hectares of additional land in Year 3, 52.1 hectares in Year 10, and 170.8 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 19.6 hectares in Year 3, 62.5 hectares in Year 10, and 196.4 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Demand projections for land in NEIZ (hectares) – high land demand scenario

Property type	3 years	10 years	30 years
Small & medium industrial	0.9	2.2	5.3
Large industrial	15.5	49.9	165.5
Accommodation	0.0	0.0	0.0
Small & medium retail	0.0	0.0	0.0
Large retail	0.0	0.0	0.0
Commercial office	0.0	0.0	0.0
Commercial services	0.0	0.0	0.0
Total commercial requirement	**16.4**	**52.1**	**170.8**
NPS margin	3.3	10.4	25.6
Additional land requirement	**19.6**	**62.5**	**196.4**

The results of the capacity assessment indicate that the 145.9 hectares of available zoned land would be sufficient to accommodate short and medium-term growth, but that an additional 86.4 ha of land would need to be zoned to accommodate long-term growth. Under this scenario the 145.9 hectares of available land would be fully utilised in Year 22 (2045).

Table 50 Capacity assessment for land in NEIZ (hectares) – high land demand scenario

	3 years	10 years	30 years
Additional commercial land requirement	19.6	62.5	196.4
Commercial requirement	16.4	52.1	170.8
NPS margin	3.3	10.4	25.6
Commercial zoned land available in 2023*	145.9	145.9	145.9
Private land parcels	127.3	127.3	127.3
Public infrastructure allocation	18.6	18.6	18.6
Commercial zoned land deficit	**0.0**	**0.0**	**86.4**
Private land parcels	**0.0**	**0.0**	**69.1**
Public infrastructure allocation	**0.0**	**0.0**	**17.3**

* Excludes net loss of 35ha of NEIZ land to KiwiRail freight hub. See section 3.2.6 for more information.

6.2.3 Business zones

The key results for the high land demand scenario are:

- Total commercial requirement of 2.8 hectares of additional land in Year 3, 13.9 hectares in Year 10, and 44.6 hectares in Year 30. The commercial requirement describes the amount of land businesses would need (private land parcels) to accommodate their future floorspace levels.
- **Total additional land requirement of 3.3 hectares in Year 3, 16.6 hectares in Year 10, and 51.3 hectares in Year 30. This is calculated as the total commercial requirement plus the NPS competitiveness margin.**

Demand projections for land in business zones (hectares) – high land demand scenario

Property type	3 years	10 years	30 years
Small & medium industrial	0.0	0.0	0.0
Large industrial	0.0	0.0	0.0
Accommodation	0.1	0.8	2.7
Small & medium retail	0.0	2.8	12.9
Large retail	1.0	3.8	10.2
Commercial office	0.0	1.6	6.7
Commercial services	1.7	4.9	12.1
Total commercial requirement	**2.8**	**13.9**	**44.6**
NPS margin	0.6	2.8	6.7
Additional land requirement	**3.3**	**16.6**	**51.3**

The results of the capacity assessment indicate that the 19 hectares of available zoned land would be sufficient to accommodate short and medium-term growth, but that an additional 40 ha of land will need to be zoned to accommodate long-term growth. Under this scenario the 19 hectares of available land would be fully utilised in Year 12 (2035).

Table 51 Capacity assessment for land in business zones (hectares) – high land demand scenario

	3 years	10 years	30 years
Additional commercial land requirement	3.3	16.6	51.3
Commercial requirement	2.8	13.9	44.6
NPS margin	0.6	2.8	6.7
Commercial zoned land available in 2023	19.0	19.0	19.0
Private land parcels	19.0	19.0	19.0
Public infrastructure allocation	0.0	0.0	0.0
Commercial zoned land deficit	**0.0**	**0.0**	**40.3**
Private land parcels	**0.0**	**0.0**	**32.2**
Public infrastructure allocation	**0.0**	**0.0**	**8.1**

7 Conclusions

The overarching conclusion is that Palmerston North City has enough zoned land to meet its business and industrial requirements for the next 30 years. Even the high land demand scenario, which is based on an unlikely combination of high population growth, high optimal vacancy rate, and low floorspace productivity, indicates that there is enough zoned land to meet all commercial needs for at least 20 years.

However, factors such as land banking and high ownership concentration could create the perception of scarcity even though there is enough available land to meet long-term commercial requirements. This is something PNCC will need to monitor and respond to if it becomes an issue.

Table 52 Summary of Palmerston North City Commercial Land Assessment

	3 years	10 years	30 years
Low land demand scenario			
Airport & industrial zones	✓	✓	✓
NEIZ	✓	✓	✓
Business zones	✓	✓	✓
Base scenario			
Airport & industrial zones	✓	✓	✓
NEIZ	✓	✓	✓
Business zones	✓	✓	✓
High land demand scenario			
Airport & industrial zones	✓	✓	X
NEIZ	✓	✓	X
Business zones	✓	✓	X

Appendix 1

Table 53 Total floorspace segmented by property type, grade, and detailed commercial zone (sqm)

	Airport	Industrial	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone/ Residential	TOTAL
Small & medium industrial	8,540	698,252	33,333						740,125
Large industrial		228,998	112,969						341,967
Accommodation				20,659	21,242		1,930	1,170	45,001
Small & medium retail		21,374		129,097	112,924	5,786	34,263	1,469	304,913
Large retail		13,987		41,142	42,110	13,091	10,773		121,103
Commercial office		11,720		89,598	110,760	1,356	2,487		215,921
Commercial services		26,177		2,983	76,763	32,324	7,550		145,797
Other	14,821	15,023		45,731	26,704	6,627	3,229		112,135
TOTAL	**23,361**	**1,015,531**	**146,302**	**329,210**	**390,503**	**59,184**	**60,232**	**2,639**	**2,026,962**
A grade		244,599	146,302	74,320	115,024	12,830	15,603		608,678
B grade	23,361	650,241		185,593	190,765	40,487	33,118	210	1,123,775
C grade		120,681		69,297	84,700	5,867	11,511	2,429	294,485
Occupied commercial land		10			14	0			24
TOTAL	**23,361**	**1,015,531**	**146,302**	**329,210**	**390,503**	**59,184**	**60,232**	**2,639**	**2,026,962**

Table 54 Occupied floorspace segmented by property type, grade, and detailed commercial zone (sqm)

	Airport	Industrial	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone/ Residential	TOTAL
Small & medium industrial	8,540	686,014	33,333						727,887
Large industrial		228,998	112,969						341,967
Accommodation				18,939	21,242		1,930	1,170	43,281
Small & medium retail		20,362		104,759	104,727	5,786	31,864	1,469	268,967
Large retail		13,987		41,142	42,110	13,091	10,773		121,103
Commercial office		11,720		73,366	102,942	1,356	2,397		191,781
Commercial services		26,177		2,661	73,638	31,683	7,200		141,359
Other	14,821	15,023		44,716	26,056	6,627	3,147		110,390
TOTAL	**23,361**	**1,002,281**	**146,302**	**285,583**	**370,715**	**58,543**	**57,310**	**2,639**	**1,946,734**
A grade		241,120	146,302	62,357	114,590	12,830	15,218		592,417
B grade	23,361	642,346		175,243	182,806	40,267	31,391	210	1,095,624
C grade		118,805		47,983	73,305	5,446	10,701	2,429	258,669
Occupied commercial land		10			14				24
TOTAL	**23,361**	**1,002,281**	**146,302**	**285,583**	**370,715**	**58,543**	**57,310**	**2,639**	**1,946,734**

Table 55 Vacant floorspace segmented by property type, grade, and detailed commercial zone (sqm)

	Airport	Industrial	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone/ Residential	TOTAL
Small & medium industrial	0	12,238	0						12,238
Large industrial		0	0						0
Accommodation				1,720	0		0	0	1,720
Small & medium retail		1,013		24,338	8,197	0	2,399	0	35,947
Large retail		0		0	0	0	0		0
Commercial office		0		16,232	7,819	0	90		24,141
Commercial services		0		322	3,125	641	350		4,438
Other	0	0		1,015	648	0	83		1,746
TOTAL	**0**	**13,251**	**0**	**43,627**	**19,788**	**641**	**2,922**	**0**	**80,229**
A grade		3,479		11,963	435		385		16,262
B grade		7,896		10,350	7,959	220	1,727	0	28,151
C grade		1,876		21,314	11,395	421	810	0	35,816
Occupied commercial land		0			0				0
TOTAL	**0**	**13,251**	**0**	**43,627**	**19,788**	**641**	**2,922**	**0**	**80,229**

Table 56 Vacancy rate segmented by property type, grade, and detailed commercial zone (sqm)

	Airport	Industrial	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone/ Residential	TOTAL
Small & medium industrial	0.0%	1.8%	0.0%						1.7%
Large industrial		0.0%	0.0%						0.0%
Accommodation				8.3%	0.0%		0.0%	0.0%	3.8%
Small & medium retail		4.7%		18.9%	7.3%	0.0%	7.0%	0.0%	11.8%
Large retail		0.0%		0.0%	0.0%	0.0%	0.0%		0.0%
Commercial office		0.0%		18.1%	7.1%	0.0%	3.6%		11.2%
Commercial services		0.0%		10.8%	4.1%	2.0%	4.6%		3.0%
Other	0.0%	0.0%		2.2%	2.4%	0.0%	2.6%		1.6%
TOTAL	**0.0%**	**1.3%**	**0.0%**	**13.3%**	**5.1%**	**1.1%**	**4.9%**	**0.0%**	**4.0%**
A grade		1.4%	0.0%	16.1%	0.4%	0.0%	2.5%		2.7%
B grade	0.0%	1.2%		5.6%	4.2%	0.5%	5.2%	0.0%	2.5%
C grade		1.6%		30.8%	13.5%	7.2%	7.0%	0.0%	12.2%
Occupied commercial land		0.0%			0.0%				0.0%
TOTAL	**0.0%**	**1.3%**	**0.0%**	**13.3%**	**5.1%**	**1.1%**	**4.9%**	**0.0%**	**4.0%**

Table 57 Available commercial zoned land area segmented by detailed commercial zone (hectares)

	Airport	Industrial**	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	Out of zone/ Residential	TOTAL
Area of developed land parcels	200.5	316.4	42.6	30.0	69.6	15.6	18.3	0.8	693.9
Parcels with commercial buildings	1.3	304.1	42.6	25.3	64.0	14.1	16.7	0.8	468.9
Parcels with non-commercial buildings	199.2	12.3		4.7	5.6	1.5	1.6		225.0
Other zoned land available for development	12.9*	87.0**	180.9***	1.6	10.4	4.0	3.1	5.9	305.9
Parcels not requiring infrastructure	12.9*	38.8	52.7	1.6	10.4	4.0	3.1	5.9	129.4
Parcels requiring infrastructure		14.7	78.2						92.9
KiwiRail hub allocation: commercial			15.0***						15.0
KiwiRail hub allocation: non-commercial			35.0***						35.0
Dairy industry allocation: commercial		33.5**							33.5
Total zoned land	213.5	403.5	223.6	31.6	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. This land 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.

*** See section 3.2.6 regarding allocation of NEIZ land to the proposed Kiwirail freight hub.

Table 58 Breakdown of commercial zoned land available for development segmented by detailed commercial zone (hectares)

	Airport	Industrial	NEIZ	Inner Business	Outer Business	Fringe Business	Local Business	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	102.9	0.1	5.3	1.0	1.6	5.9	126.0
Under Construction		2.3	1.9	0.3	1.0		0.2		5.6
Vacant	9.6	72.4	75.7		0.9	0.1	0.3		158.9
TOTAL	12.9	87.0	180.9	1.6	10.4	4.0	3.1	5.9	305.9

* Includes 50ha of NEIZ land allocated to the proposed Kiwirail freight hub. See section 3.2.6 for more information.

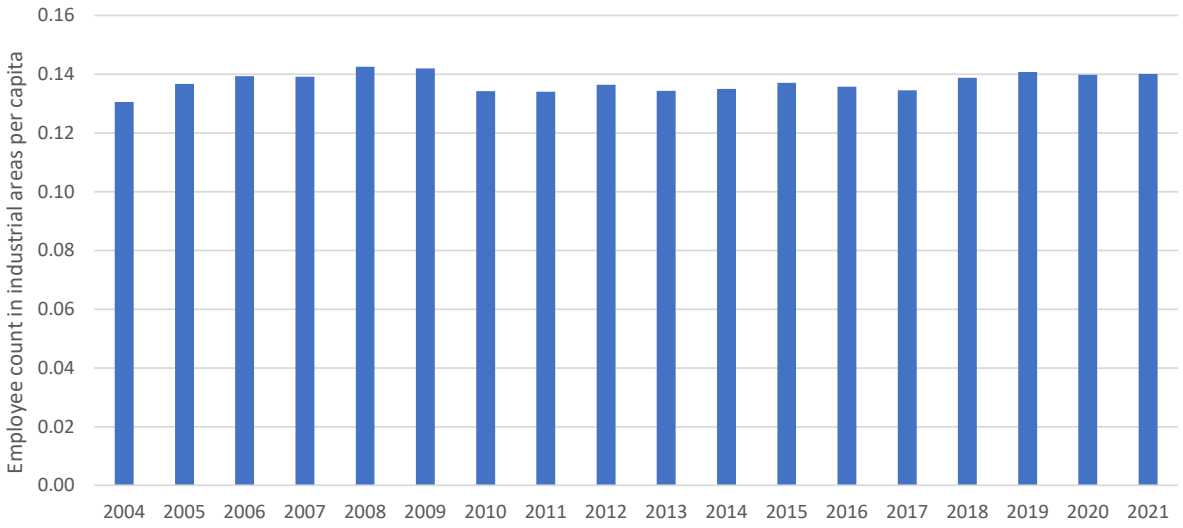
Appendix 2

This section contains a direct extract of the NIEZ industrial land forecasting methodology used in the Te Utanganui study.

Approach

Analysis conducted at the beginning of the project revealed a consistent long-term relationship between population and employee counts in industrial areas in Palmerston North. This is demonstrated in the graph below which shows that the employee count in industrial areas per capita has remained stable at around 0.14 since 2004.

Figure 24 Employee count in industrial areas per capita in Palmerston North
Source: Stats NZ



This stability indicates that there is an underlying structural relationship between employee counts in industrial areas and population, although the direction of causality is uncertain. The key implication is that growth in employment in industrial areas is likely to be accompanied by growth in other parts of the economy, such that the long-term employee count in industrial areas per capita of 0.14 is sustained over time. However, it is acknowledged that new developments could create short-term deviations from the long-term average.

What this means from a forecasting perspective is that long-term employment forecasts for industrial areas can be driven off population forecasts, and vice versa.

We have used Palmerston North population projections prepared by Infometrics to forecast employee counts in industrial areas at a city-wide level. The rationale for driving the analysis off population projections is threefold:

1. Population projections tell a broader story about the growth and development of Palmerston North. In our view growth in employment in industrial areas must be considered within this broader growth context, rather than being modelled in isolation.
2. This top-down approach allows us to avoid issues of incrementality and double-counting which are often present in bottom-up approaches. For example, if we were forecasting employment in industrial areas in

isolation there is a risk of counting every new industrial employee as a new employee in Palmerston North, even though some of these employees may be moving internally within the employment system. Starting at the system-wide level removes the possibility of this occurring.

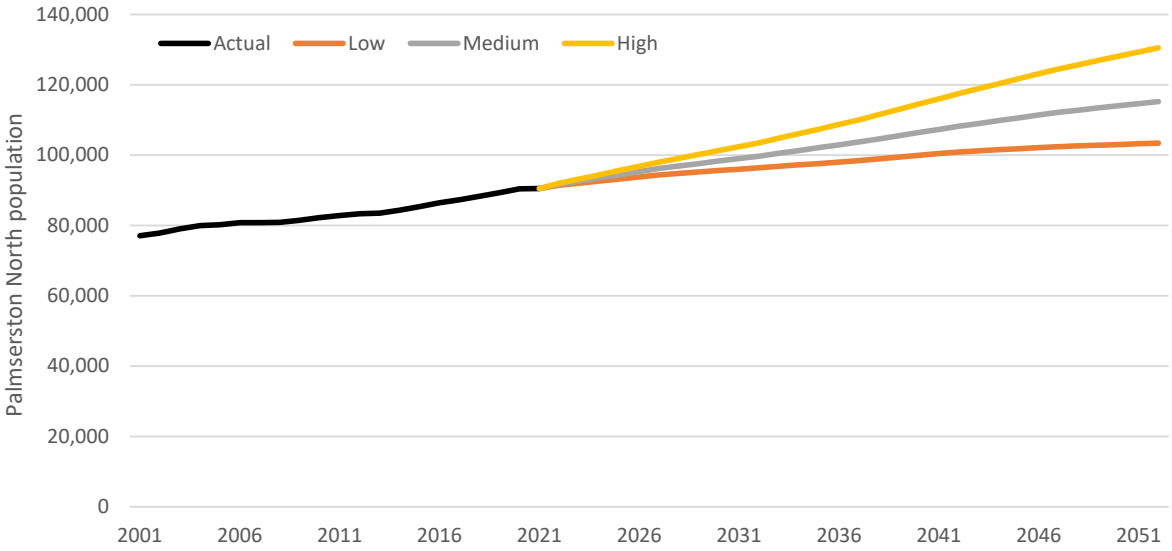
3. This approach ensures that our analysis aligns with existing projections, rather than creating a new set of projections that compete with existing ones.

Infometrics provides PNCC with low, medium, and high population projections which have a 2018 base and extend to 2052 in five-year increments.[3] Each scenario represents a particular growth story for Palmerston North, both at an aggregate level and in terms of industrial activity and employment. We have assumed for the purposes of our modelling that:

- The low population projection is representative of a low-growth future for industrial activity and employment in Palmerston North.
- The medium population projection is representative of a medium-growth future for industrial activity and employment in Palmerston North.
- The high population projection is representative of a high-growth future for industrial activity and employment in Palmerston North

We consider it unlikely that Palmerston North could achieve a high-growth future for industrial activity and employment while only achieving low or medium growth in population. This would imply a major structural shift in the economic system that we find no previous evidence of.

Figure 25 Palmerston North population projections
Source: Infometrics



[3] The population projections were not updated to reflect latest (2023) forecasts, but the 2023 forecasts were very similar to the 2018 forecasts.

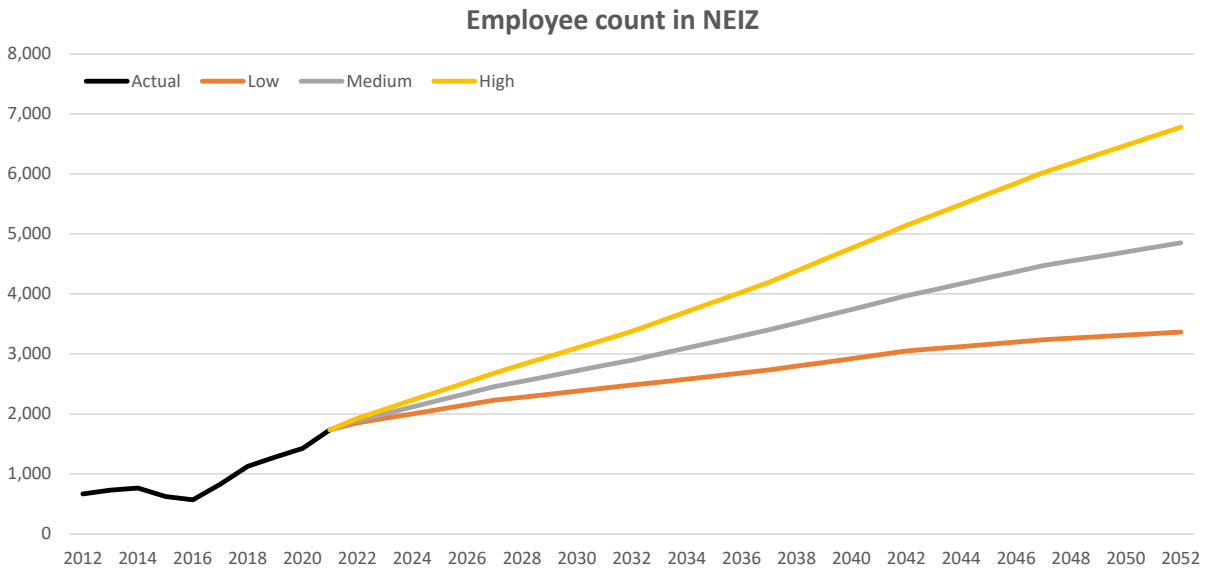
Land demand in the NEIZ

The first stage of the forecasting process involved forecasting the demand for land in the NEIZ. The main steps involved in projecting industrial land demand in the NEIZ were:

- Converting the population projections into projections of employee counts in industrial areas based on the long-term relationship described above.
- Allocating 90% of projected growth in employment in industrial areas to the NEIZ. 90% was chosen because the NEIZ is expected to absorb most, but not all, of the growth in industrial employment in Palmerston North. The remaining growth would occur in existing and/or potential industrial zoned areas. Historical employee counts for the NEIZ were sourced from Stats NZ.
- Dividing the resulting employee count projections by the current NEIZ employment density (number of employees per hectare of occupied land) to produce occupied land area projections. The current NEIZ employment density was derived by dividing Stats NZ employee count estimates for the NEIZ by the combined land area of occupied NEIZ land parcels.

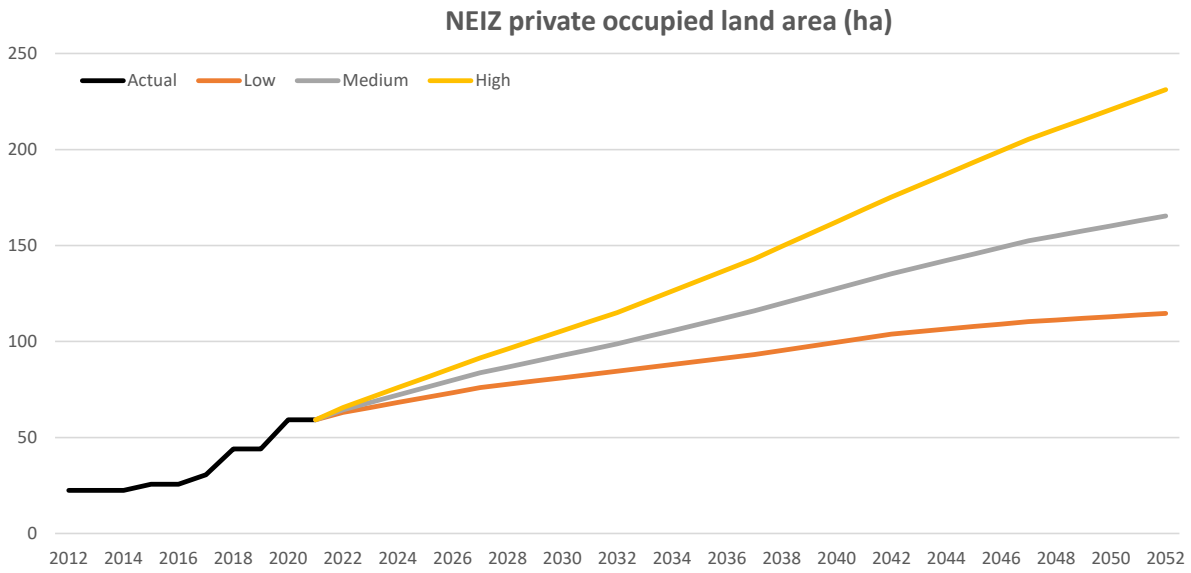
The graph below shows the resulting forecasts of NEIZ employee counts under each growth scenario.

Figure 26 NEIZ employee count forecasts
Source: Fresh Info



The graph below shows the resulting forecasts of demand for private land parcels in the NEIZ under each growth scenario. Private land parcels are privately owned pieces of land within the NEIZ that can be used for productive purposes. The remaining NEIZ land will be publicly owned and/or communal e.g. roads, stormwater treatment, greenspaces, public amenity.

Figure 27 NEIZ land demand forecasts (ha)
Source: Fresh Info



Land supply in the NEIZ

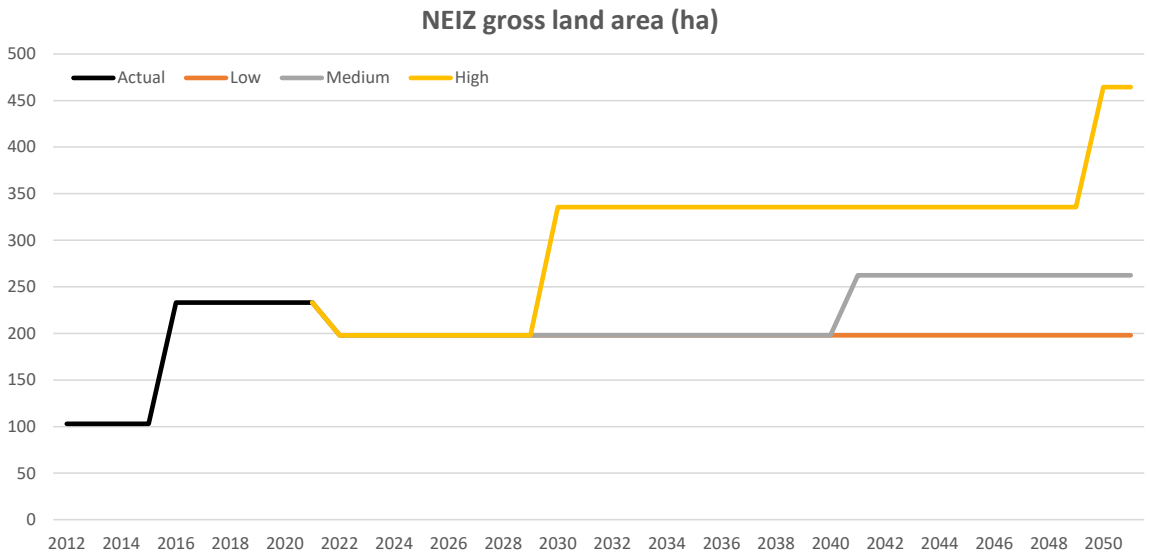
The second stage of the forecasting process involved the development of a land release model to predict when, and how much, new industrial land would need to be released to accommodate future growth. The main steps involved in projecting industrial land supply in the NEIZ were:

- Determining an appropriate "trigger" for when new industrial land should be released. Note that "pulling the trigger" represents the actual release of the new land. The planning process that precedes this is likely to take 5-10 years. Land release is triggered in the model when the existing NEIZ supply can only absorb 10 more years of demand, based on the demand scenario selected. 10 years was chosen to retain a sufficient buffer from a planning perspective and limit the impact of scarcity on land prices. This threshold can be changed in the model, if required. Note that the concentration of land ownership in the NEIZ could influence pricing even if land scarcity wasn't an issue. Ownership concentration is beyond the scope of our analysis.
- Determining the quantum of land that should be released when the trigger is pulled. The model defaults to releasing enough land to absorb 20 additional years of NEIZ demand, based on the demand scenario selected. This means that there will be 30 years of land supply in the year the trigger is pulled – the 10-year buffer plus the 20 years of new supply. The 20-year period can be changed in the model, if required.
- Estimating the impact of KiwiRail's freight hub on land supply in the NEIZ. Current estimates indicate that KiwiRail will acquire ~50ha of NEIZ land. However, KiwiRail intends to lease ~15ha of this land to commercial operators, so the net loss of industrial land in the existing NEIZ area is only 35ha. All scenarios remove 35ha of land from the NEIZ in 2022, but alternative scenarios can be run in the model, including the scenario that no land is removed from the NEIZ (i.e. the KiwiRail development does not proceed).

The modelling is based on demand for, and supply of, private land parcels. However, the private land forecasts are then scaled up to gross land area forecasts based on the assumption that 20% of the gross land area will be devoted to public infrastructure and amenity. This results in the gross land area (private and public land parcels combined) being around 25% higher than the private land area.

The graph below shows the resulting forecasts of gross land supply in the NEIZ in hectares under each growth scenario and provides a clear signal of when new NEIZ land will be required.

Figure 28 NEIZ land supply forecasts
Source: Fresh Info



Other forecasts

The third stage of the forecasting process involved the development of two derivative measures:

- Site coverage on private land parcels
- Employment composition in the NEIZ

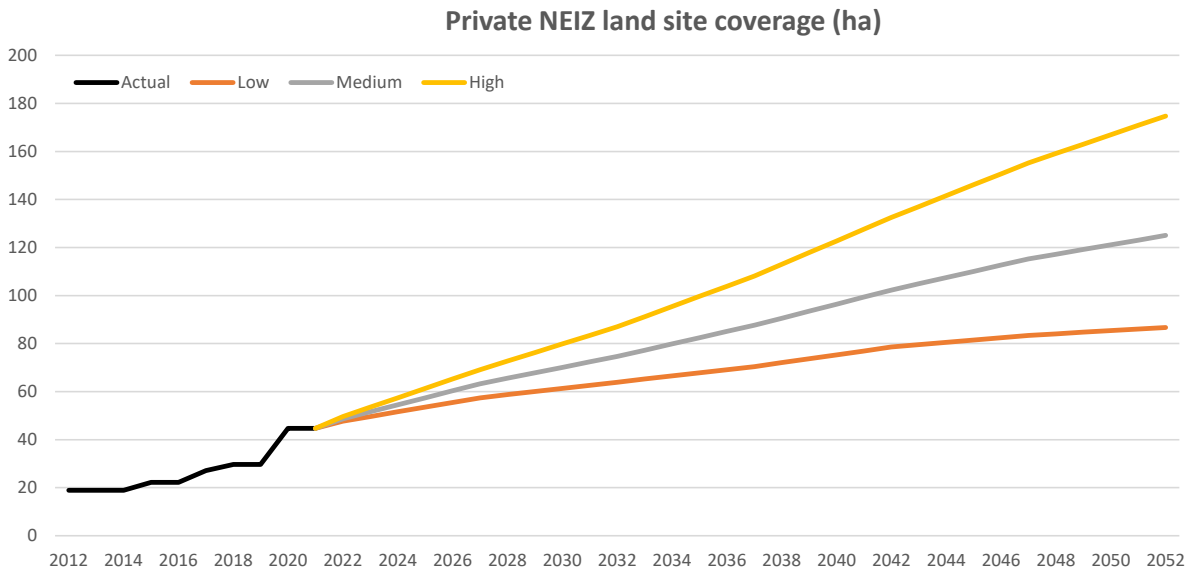
Site coverage on private NEIZ land parcels

The main steps involved in forecasting site coverage on private land parcels were:

- Estimating site coverage on existing occupied private land parcels in the NEIZ using data sourced from PNCC and LINZ. This analysis indicated that 76% of occupied private land parcels were covered in buildings and impermeable surfaces.
- Assuming that average site coverage in the future will be the same as current levels (76%).
- Multiplying the NEIZ private occupied land area forecasts by the average site coverage rate to estimate site coverage on private land parcels in hectares.

The graph below shows the resulting forecasts of site coverage on private land parcels under each growth scenario.

Figure 29 Site coverage on private NEIZ land parcels
Source: Fresh Info



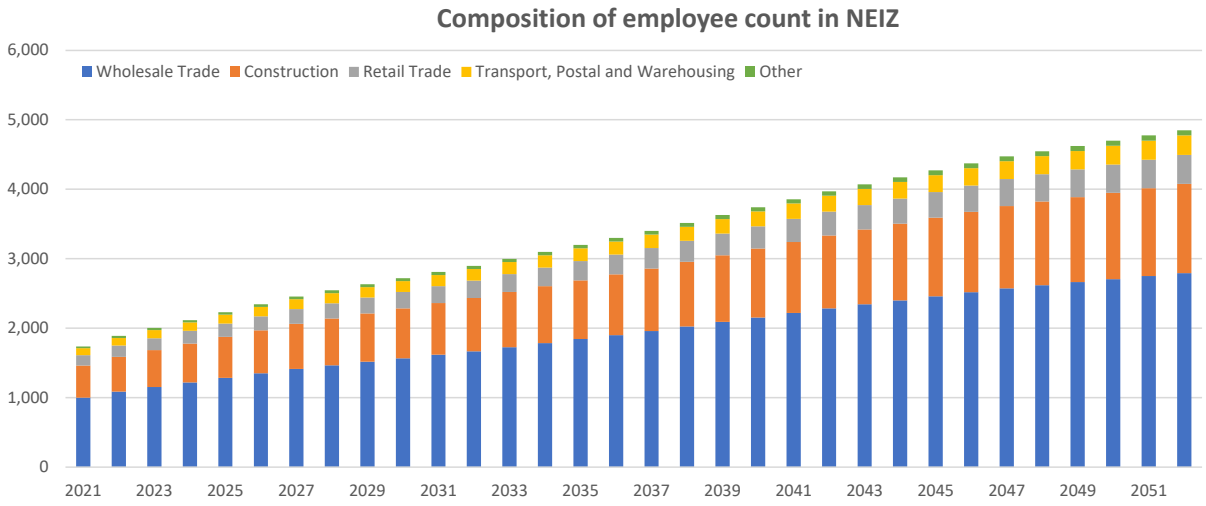
Employment composition in the NEIZ

The main steps involved in forecasting the employment composition in the NEIZ were:

- Sourcing industry-level employment data from Stats NZ to understand the current composition of employment in the NEIZ.
- Assuming that the future employment composition in the NEIZ will have the same structure as the current composition. This is based on PNCC's current view that the NEIZ should remain a large format industrial area with a strong focus on distribution.
- Imposing the current employment composition in the NEIZ on the employee count forecasts to allocate future growth to specific industries.

The graph below shows the resulting forecasts of employment composition for the medium growth scenario.

Figure 30 Composition of employee count in NEIZ (medium scenario)
Source: Fresh Info



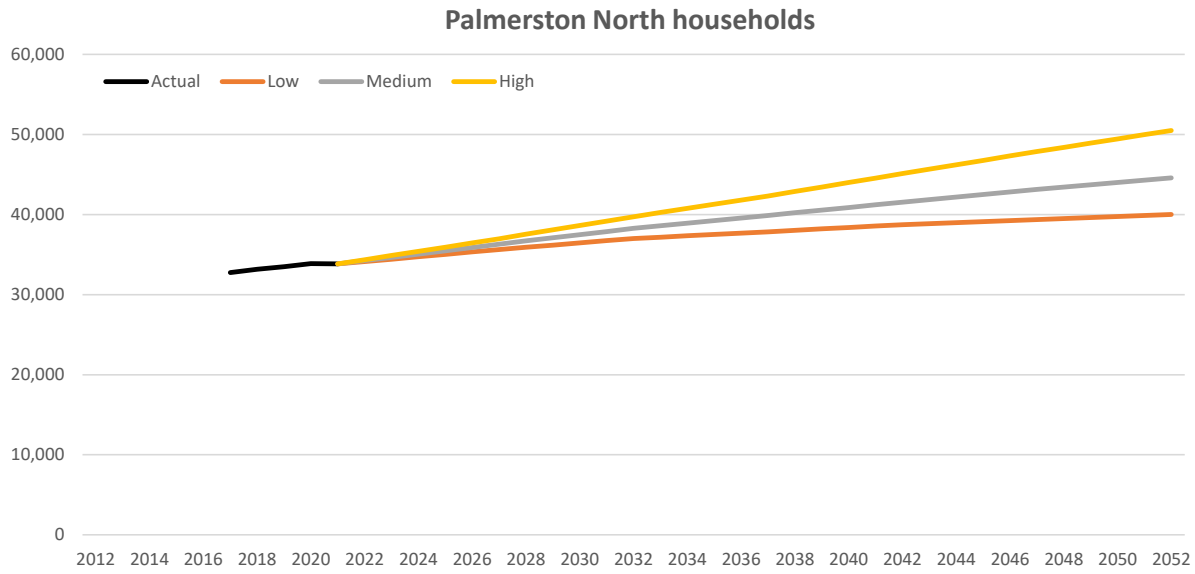
Palmerston North households

The main steps involved in forecasting the number of households in Palmerston North were:

- Obtaining the latest low, medium, and high household projections produced by Infometrics for PNCC. These aligned directly with the latest population forecasts produced by Infometrics.
- Calculating the average number of occupants per household for each year (population divided by number of households).
- Dividing the selected population scenario by the average number of occupants per household to produce estimates of the number of households required.

The graph below shows the resulting forecasts of Palmerston North households under each growth scenario.

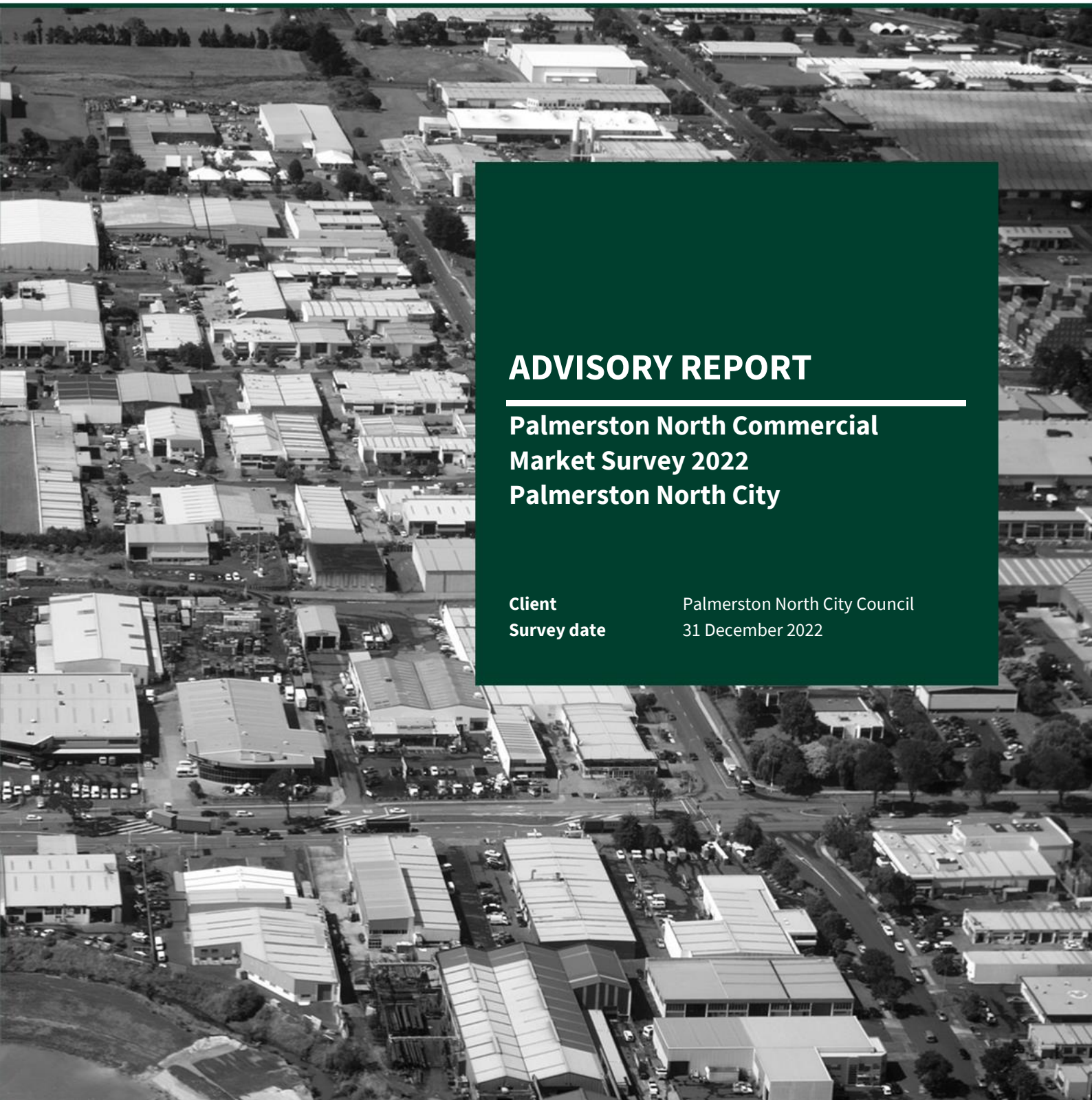
Figure 31 Palmerston North household projections
Source: Infometrics and Fresh Info



A key benefit of this approach is that it estimates the city-wide housing stock that would be required under each growth scenario. For example, under the low growth scenario around 40,000 households would be required within Palmerston North in 2052, compared with 44,600 under the medium growth scenario and 50,500 under the high growth scenario. This represents an additional 6,200 households under the low growth scenario relative to 2021, 10,700 under the medium growth scenario, and 16,600 under the high growth scenario.

Housing supply analysis contained in PNCC's latest Housing Capacity Assessment Report (June 2021) indicates that around 13,000 new households could be delivered over the next 30 years through various greenfield, infill, and rural/residential developments. This would comfortably accommodate the low and medium growth scenarios of 6,200 new households and 10,700 new households respectively but would fall short of accommodating the high growth scenario of 16,600 new households. PNCC would therefore need to make additional land available for residential development if Palmerston North achieved the high growth scenario.

TelferYoung
FROM CBRE



ADVISORY REPORT

Palmerston North Commercial Market Survey 2022
Palmerston North City

Client Palmerston North City Council
Survey date 31 December 2022

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17 May 2023

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ADVISORY REPORT
PALMERSTON NORTH COMMERCIAL MARKET SURVEY 2022
PALMERSTON NORTH CITY

In accordance with instructions, we have now completed the Palmerston North City Council (PNCC) commissioned Palmerston North Commercial Property Market Survey. Summary reporting follows below. More detailed findings are recorded in the enclosed spreadsheet.

1 EXECUTIVE SUMMARY

1.1 BUSINESS ZONES

- There is 127.7302 ha land zoned for commercial purpose in four business zones:
  - Inner Business.
  - Outer Business.
  - Fringe Business
  - Local Business.
- Currently 112.6699 ha (88.21%) has been developed and is offering 784,515 m^2 of floor space in the business zones. Said floor space is in Grade A buildings (25.34%), Grade B buildings (54.08%), and Grade C buildings (20.58%).
- As of December 2022, the overall vacancy rate across all business zones is 65,603 m^2, this represents 8.36% of total floor space.
- In terms of floor area, the highest vacancy is in Grade C buildings (31,890 m^2), followed by Grade B buildings (21,315 m^2), and Grade A buildings (12,398 m^2).
- The Inner Business zone has the highest vacancies at 44,831 m^2, followed by Outer Business zone at 19,953 m^2.

1.2 INDUSTRIAL ZONES

- There is 870.0971 ha land zoned for industrial purpose in three industrial zones:
  - Airport.
  - Industrial.
  - North East Industrial.
- Currently 547.2998 ha (62.91%) has been developed and is offering 1,197,884 m^2 of floor space in the industrial zones. Said floor space is in Grade A buildings (33.71%), Grade B buildings (56.22%), and Grade C buildings (10.07%).
- As of December 2022, industrial premises vacancies are very low at 13,251 m^2 (or 1.11% of total floorspace) and associated with the industrial zone only. There are no vacancies in the Airport and North East Industrial zones.
- Within the Industrial zone the highest vacancy is in Grade B buildings (7,896 m^2), followed by Grade A buildings (3,479 m^2), and Grade C buildings (1,876 m^2).

2 SCOPE OF WORK

2.1 OUR CLIENT

Palmerston North City Council.

Other than the client or addressee, the report may not be relied upon by any third party. We accept no liability to third parties. Written consent is required for any third party wishing to rely on this report. We reserve the right to withhold that consent, or to review the contents of the report if consent for third party use is sought.

2.2 PURPOSE

Vacancy survey of properties within the industrial and business zones in Palmerston North City.

Survey has included capture of individual property:

- Land use activity on a tenancy-by-tenancy basis.
- Building frontage photograph.

2.3 BASIS OF SURVEY

- Vacancy assessments are carried out on all properties where there is a building(s) that is rated as non-residential.
- Vacancy levels are assessed by reference to known floor area measure, scaled from records held, and lease advertising information.
- Vacancy levels are shown as a ratio of assessed vacant floor area to District Valuation Roll floor areas i.e., percentage (0%, 25%, 50%, 75%, 100%) against floor area from District Valuation Roll for ground floor and upper floors.
- Where property was being advertised for lease or sublease but was still occupied it was treated as occupied.
- Buildings are graded into the following categories:
  - Grade A – built post year 2000.
  - Grade B – built between 1960s to 1990s.
  - Grade C – built pre-1960s.
  - Adjustments are made to finalise grading by reference to physical viewing i.e., refurbished, modernised may be B grade rather than C grade.
- Where there is no significant building(s) i.e., where the building(s) > 50m^2, properties are classified into the following non-graded categories:
  - CP – Carpark.
  - OC – Occupied (e.g., land used for storage without building, car yard where it could not be assigned to a business such as car rental).
  - R – Residential or rural rated properties.
  - UC – Under construction.
  - V – Vacant Land.

2.4 DATE OF SURVEY

31 December 2022.

2.5 EXTENT OF INVESTIGATIONS

- Survey incorporated a viewing of all property identified in the Palmerston North City District Valuation Roll with zoning:
  - Inner Business.
  - Outer Business.
  - Local Business (Terrace End only).
  - Fringe Business.
  - Industrial.
  - Airport.
  - North East Industrial.
- Initial property viewings were undertaken with an external inspection from roadsides and pedestrian ways.
- Where possible internal inspections were undertaken.
- Land areas that are used as road reserves and utilities are excluded. This includes water, electricity, and telecommunications facilities, plus land where wastewater treatment plant, and resource recovery centre are situated.

2.6 NATURE AND SOURCE OF INFORMATION RELIED UPON

Property data and market information has been sourced from but is not limited to:

- TelferYoung from CBRE property viewings and in-house database.
- PNCC.
- Real Estate Institute of New Zealand.
- Property Guru: CoreLogic New Zealand.
- Headway Systems Limited.
- Local Property Professionals.

No other information or documentation of particular significance to the exercise has been relied upon without specific verification by TelferYoung from CBRE.

3 MARKET SECTORS FINDINGS

3.1 BUSINESS ZONES (IBZ + OBZ + FBZ + LBZ)

3.1.1 Overview

Grade	No. of Properties	Total Land Area (ha)	Total Floor Area (m^2)	Buildings Vacancy (%)
Grade A	103	34.1604	198,771	6.24%
Grade B	429	56.6181	424,284	5.02%
Grade C	246	21.8914	161,640	19.75%
Total	**778**	**112.6699**	**784,515**	**8.36%**

- There is 784,515 m^2 of floor space in the combined business zones. They consist of the following building grades:
  - Grade A – 25.34%.
  - Grade B – 54.08%.
  - Grade C – 20.58%.
- The overall vacancy rate (combining all business zones) is 8.36% of total floor space. The highest to lowest vacancy rates are as follows:
  - Grade C buildings – 19.75%.
  - Grade A buildings – 6.24%.
  - Grade B buildings – 5.02%.

3.1.2 Ground Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m^2)	Total Floor Area (%)	Vacant Floor Area (m^2)	Vacant Floor Area (%)
Grade A	155,882	27.59%	2,091	1.34%
Grade B	288,213	51.01%	11,722	4.07%
Grade C	120,924	21.40%	17,984	14.87%
Total	**565,019**	**100.00%**	**31,796**	**5.63%**

- There is 565,019 m^2 of ground floor space in the combined business zones. They consist of the following building grades:
  - Grade A – 27.59%.
  - Grade B – 51.01%.
  - Grade C – 21.40%.
- The overall ground floor vacancy rate (combining all business zones) is 31,796 m^2 or 5.63% of total floor space. The highest to lowest ground floor vacancy rates are as follows:
  - Grade C buildings – 14.87% (17,984 m^2 is available).
  - Grade B buildings – 4.07% (11,722 m^2 is available).
  - Grade A buildings – 1.34% (2,091 m^2 is available).

3.1.3 Upper Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m^2)	Total Floor Area (%)	Vacant Floor Area (m^2)	Vacant Floor Area (%)
Grade A	42,889	19.54%	10,307	24.03%
Grade B	136,071	61.99%	9,635	7.08%
Grade C	40,536	18.47%	13,224	32.62%
Total	**219,496**	**100.00%**	**33,166**	**15.11%**

- There is 219,496 m^2 of upper floor space in the combined business zones. They consist of the following building grades:
  - Grade A – 19.54%.
  - Grade B – 61.99%.
  - Grade C – 18.47%.
- Larger vacancy rates are evident with upper floor space. The overall upper floor vacancy rate (combining all business zones) is 33,166 m^2 or 15.11% of total floor space. The highest to lowest ground floor vacancy rates are as follows:
  - Grade C buildings – 32.62% (13,224 m^2 is available).
  - Grade A buildings – 24.03% (10,307 m^2 is available).
  - Grade B buildings – 7.08% (9,635 m^2 is available).

3.1.4 Zone Vacant Floor Area & Vacancy Rates

Grade	Vacant Floor Area (m^2)					Vacant Floor Area (%)				
	IBZ	OBZ	FBZ	LBZ	Total	IBZ	OBZ	FBZ	LBZ	Total
Grade A	11,963	435	-	-	12,398	16.10%	0.39%	0.00%	0.00%	6.24%
Grade B	12,912	8,183	220	-	21,315	6.88%	4.28%	0.54%	0.00%	5.02%
Grade C	19,957	11,335	421	178	31,890	29.27%	13.32%	7.18%	7.66%	19.75%
Total	**44,831**	**19,953**	**641**	**178**	**65,603**	**13.57%**	**5.13%**	**1.11%**	**2.34%**	**8.36%**

- The INZ has the highest total vacant floor area at 44,831 m^2, and total vacancy rate at 13.57%.
  - Although there is 16.10% vacancy in Grade A buildings (11,963 m^2 available) in this zone, this is entirely associated with one building i.e., 47 Ashley Street (the former IRD Building).
- Within each zone, there is consistent trend showing Grade C buildings has the highest vacant floor area, followed by Grade B, and Grade A buildings i.e., there is more vacant floor areas in older buildings compared to newer buildings.
  - In the Inner Business zone there is 29.27% vacancy in Grade C buildings (19,957 m^2 available), 105-112 The Square (the former High Flyers Building) accounts for the largest part at 4,810 m^2.
  - In the Outer Business zone there is 13.32% vacancy in Grade C buildings (11,335 m^2 available), 2-14 Rangitikei Street (the former Phoenix Insurance Building) accounts for the largest part at 3,948 m^2.

3.1.5 Rental & Investment Market

Assessment	Rental Market				Investment Market		
	Rent $/m² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Office	$120-$400/m²	Stable	Moderate	Average	Limited	6.50-8.50%	Weakening

Assessment	Rental Market				Investment Market		
	Rent $/m² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Retail*	$150-$400/m²	Stable	Average	Average	Average	6.50-9.50%	Weakening

* Excludes Shopping Centre Rents e.g., The Plaza, and Downtown Shopping Centre.

- Over the past two-year period (from 2020 to 2022), the Palmerston North Commercial Property Market Survey shows vacancy levels have generally increased across combined business zones.
- In the current market, property sales that have occurred still achieve relatively strong investment yields particularly where property fundamentals such as building compliance and tenancy arrangements remain sound. Older or weaker tenanted properties require higher returns to attract purchaser support.
- In terms of the office rental market, as of late 2022 there is a wide divergence of rentals in Palmerston North. There is evidence of corporate and institutional tenants seeking new compliant office space, preferably with larger floor plates. Rentals established for modern purpose-built accommodation are largely development cost driven and are at levels exceeding that for older and/or less versatile space.
- Mid-Broadway and Terrace End commercial (Outer/Local Business) continue to benefit from sound tenancy support.
- The Central Business District remains with significant vacancies.
- Conventional strip or ribbon development retailing areas evidence a spread of restaurant/food, vape and pop-up outlets; and there has been little or no rental growth in the sector over recent years. This is influenced by a combination of factors including escalating property operating costs, competition from big box retailing, The Plaza Shopping Centre and internet shopping.

3.2 INDUSTRIAL ZONES (INZ + AIZ + NEIZ)

3.2.1 Overview

Grade	No. of Properties	Total Land Area (ha)	Total Floor Area (m²)	Buildings Vacancy (%)
Grade A	150	134.4650	403,826	0.86%
Grade B	473	368.8286	673,437	1.17%
Grade C	127	44.0062	120,621	1.56%
Total	**750**	**547.2998**	**1,197,884**	**1.11%**

- There is 1,197,884 m² of floor space in the combined industrial zones. They consist of the following building grades:
  - Grade A – 33.71%.
  - Grade B – 56.22%.
  - Grade C – 10.07%.
- The overall vacancy rate (combining all industrial zones) is 1.11% of total floor space. The highest to lowest vacancy rates are as follows:
  - Grade C buildings – 1.56%.
  - Grade B buildings – 1.17%.
  - Grade C buildings – 0.86%.

3.2.2 Ground Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m²)	Total Floor Area (%)	Vacant Floor Area (m²)	Vacant Floor Area (%)
Grade A	387,756	33.84%	3,479	0.90%
Grade B	639,664	55.82%	7,896	1.23%
Grade C	118,472	10.34%	1,876	1.58%
Total	**1,145,892**	**100.00%**	**13,251**	**1.16%**

- There is 1,145,892 m² of ground floor space in the combined industrial zones. They consist of the following building grades:
  - Grade A – 33.84%.
  - Grade B – 55.82%.
  - Grade C – 10.34%.
- The overall ground floor vacancy rate (combining all industrial zones) is 13,251 m² or 1.16% of total floor space. The highest to lowest ground floor vacancy rates are as follows:
  - Grade C buildings – 1.58% (1,876 m² is available).
  - Grade B buildings – 1.23% (7,896 m² is available).
  - Grade A buildings – 0.09% (3,479 m² is available).

3.2.3 Upper Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m^2)	Total Floor Area (%)	Vacant Floor Area (m^2)	Vacant Floor Area (%)
Grade A	16,070	30.91%	-	0.00%
Grade B	33,773	64.96%	-	0.00%
Grade C	2,149	4.13%	-	0.00%
Total	**51,992**	**100.00%**	**-**	**0.00%**

- There is 51,992 m^2 of upper floor space in the combined industrial zones. They consist of the following building grades:
  - Grade A – 30.91%.
  - Grade B – 64.96%.
  - Grade C – 4.13%.
- The overall upper floor vacancy rate (combining all industrial zones) is zero i.e., across all industrial zones there is no vacant upper floor space.

3.2.4 Zone Vacant Floor Area & Vacancy Rates

Grade	Vacant Floor Area (m^2)				Vacant Floor Area (%)			
	INZ	AIZ	NEIZ	Total	INZ	AIZ	NEIZ	Total
Grade A	3,479	-	-	3,479	1.36%	0.00%	0.00%	0.86%
Grade B	7,896	-	-	7,896	1.21%	0.00%	0.00%	1.17%
Grade C	1,876	-	-	1,876	1.56%	0.00%	0.00%	1.56%
Total	**13,251**	**-**	**-**	**13,251**	**1.29%**	**0.00%**	0.00%	**1.11%**

- There are no vacant buildings in the Airport and North East Industrial zones.
- Building vacancies are associated with the Industrial zone only. The highest to lowest vacancy rates are as follows:
  - Grade C buildings – 1.56% (1,876 m^2 is available).
  - Grade B buildings – 1.17% (7,896 m^2 is available).
  - Grade A buildings – 0.86% (3,479 m^2 is available).

3.2.5 Rental & Investment Market

Assessment	Rental Market			Investment Market			
	Rent $/m² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Office	$120-$250/m²	Improving	Limited	Strong	Limited	6.00-8.00%	Stable

Assessment	Rental Market			Investment Market			
	Rent $/m² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Warehouse	$80-$150/m²	Improving	Limited	Strong	Limited	6.00-8.00%	Stable

- Over the past two-year period (from 2020 to 2022), the Palmerston North Commercial Property Market Survey shows vacancy levels have decreased across industrial zoned properties and are now very low.
- There remains strong demand in industrial locations, particularly for modern versatile property. Owner occupiers are active in take up of property where available for purchase.
- Industrial land is characterised by short supply and construction costs have escalated significantly. This has influenced upward pressure on existing property rents and sale prices.
- The North East and East Terrace Industrial Estates are continuing strong growth sectors.
- Availability of land in the North East Industrial area remains complicated by developer land-banking and a volume of unserviced land holdings. The future KiwiRail regional transport hub development in the location will further diminish such supply in the location.
- There remains other vacant industrial zoned land within the City boundaries. However, a volume is compromised e.g., there is capacity at Longburn but a large area is held by Fonterra and is currently not available to the market, whilst nearby Works Road has infrastructural constraints.
- In our opinion the long-term outlook for the local property market is bright, associated with Palmerston North and the wider Manawatu area having a strong local economy underpinned by investment revolving around farming, education, research institutes, health, defence forces establishment, and industrial activities. Significantly, its strategic location in the lower North Island has led to Palmerston North City becoming a major distribution and logistics hub over the past 15 years.

4 STATEMENT OF LIMITING CONDITIONS AND ADVISORY POLICY

Purpose

This report has been completed for the specific advisory purpose stated. No responsibility is accepted in the event that this report is used for any other purpose. We do not accept liability for losses arising from reliance on our value estimate.

This report is indicative in nature and should not be relied upon as a basis for any contract that relies upon this indication as a statement of value for the purpose of rental, sale, or purchase of a property or as an asset value to be relied upon by any other third party.

Responsibility to third party

Our responsibility in connection with this report is limited to the client to whom the report is addressed and to that client only. We disclaim all responsibility and will accept no liability to any other party without first obtaining the written consent of CBRE Limited t/a TelferYoung from CBRE and the author of the report. CBRE Limited t/a TelferYoung from CBRE reserves the right to alter, amend, explain, or limit any further information given to any other party.

Reproduction of report

Neither the whole nor any part of this report or any reference to it may be included in any published document, circular or statement without first obtaining our written approval of the form and context in which it may appear. Our report is only valid when bearing the Valuer's signature.

Date of advice

Unless otherwise stated, the effective date of the advice is the date of the report. The advice provided is current as at the effective date only. The market may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property).

Reliability of data

The data and statistical information contained herein was gathered for survey purposes from reliable, commonly utilised industry sources. Whilst we have endeavoured to ensure that the data and information is correct, in many cases, we cannot specifically verify the information at source and therefore cannot guarantee its accuracy.

Assumptions

This report contains assumptions believed to be fair and reasonable at the date of reporting. In the event that assumptions are made, based on information relied upon which is later proven to be incorrect, or known by the recipient to be incorrect at the date of reporting, CBRE Limited t/a TelferYoung from CBRE reserves the right to reconsider the report, and if necessary, alter content.

Please contact the writer should you wish to discuss any matters raised in this report.

Yours faithfully
CBRE Limited t/a TelferYoung from CBRE

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