

**SMALL CITY BENEFITS
BIG CITY AMBITION**



URBAN DEVELOPMENT CAPACITY INDICATORS FOR PALMERSTON NORTH

December 2017 Quarter



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Background

This report has been produced to meet the quarterly reporting requirements of the National Policy Statement on Urban Development Capacity 2016. These reporting requirements apply to all medium and high growth local authorities with urban area populations of 30,000 or more people.

These quarterly reports are produced to ensure that local authorities are well-informed about demand for housing and business development capacity, urban development activity and outcomes. Indicators which local authorities are required to monitor on a quarterly basis include:

- a. Prices and rents for housing, residential and business land by location and type; and changes in these prices and rents over time;
- b. The number of resource consents and building consents granted for urban development relative to the growth in population; and
- c. Indicators of housing affordability.

Further information

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Executive summary

During the year ended December 2017 the total value of construction work approved in Palmerston North that required a building consent was valued at \$184 million, an increase of 14 percent from the previous year.

Key results for building consent approvals were:

- 354 new dwellings were approved, an increase of 36 percent from 2016.
- 349 consents were approved for additions or alterations of a residential nature, a 5 percent decline from 2016.
- the total value of non-residential consents was \$61 million, a decline of 13 percent from the previous year.

Key Statistics for Palmerston North

Population estimate as a 30 June 2017	87,300
Number of employees as at February 2017	48,500
Annual earnings (salaries, wages and self-employment) - year ended March 2016	\$2,632 million
Electronic card retail spending – year ended December 2017	\$1,109 million
Tourism expenditure – year ended December 2017	\$401 million
GDP (2010 prices) – year ended December 2017	\$3,800 million
City land area	39,500 ha

Annual trends

- Palmerston North's economy grew by 1.7 percent in the year to December 2017 (Infometrics provisional estimate).
- Population growth improved in the year to June 2017, increasing by 1,000 people between June 2016 and June 2017, an increase of 1.2 percent (Statistics New Zealand provisional estimates).
- Net overseas migration increased from a net gain of 663 people in the year ended December 2016 to a net gain of 684 people in the year to December 2017.
- Employee counts in Palmerston North increased by 1.7 percent (800 jobs) between 2016 and 2017.
- Electronic card retail spending in Palmerston North reached \$1,109 million in the year ended December 2017, an increase of 4.2 percent, the same as the national increase of 4.2 percent.
- The Palmerston North inner CBD area attracted one-third of retail spending in the City in the 12 months ended January 2018 (\$367 million) while the outer CBD area attracted a further 14 percent (\$154 million).

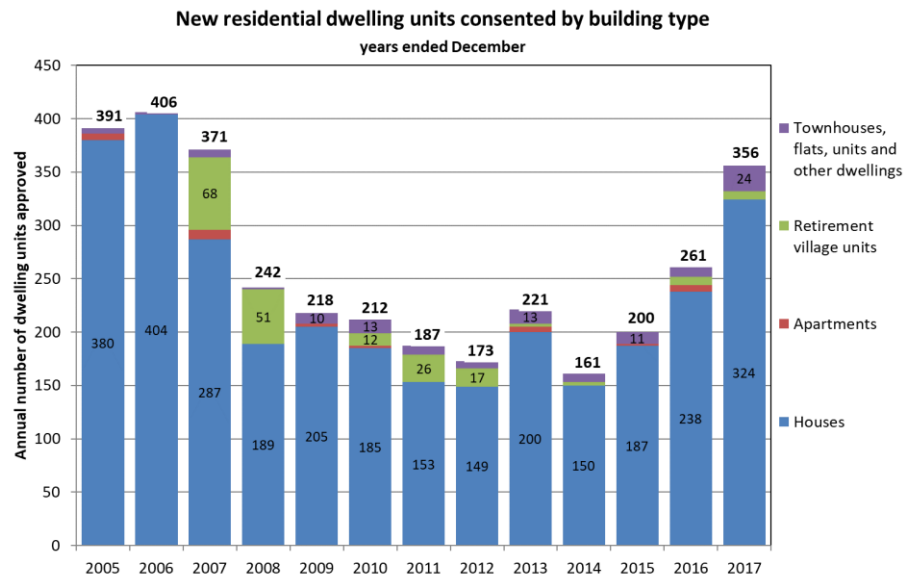
Palmerston North's Housing Market

New residential building consents

In the year ended December 2017, 356 new residential dwellings, valued at \$109 million, were approved for construction in Palmerston North. This was the highest number of new dwelling consents approved in the city since 2007.

This compares to 261 consents approved in 2016, representing an increase of 36 percent in number or 86 additional dwelling consents.

(Source: Statistics New Zealand)

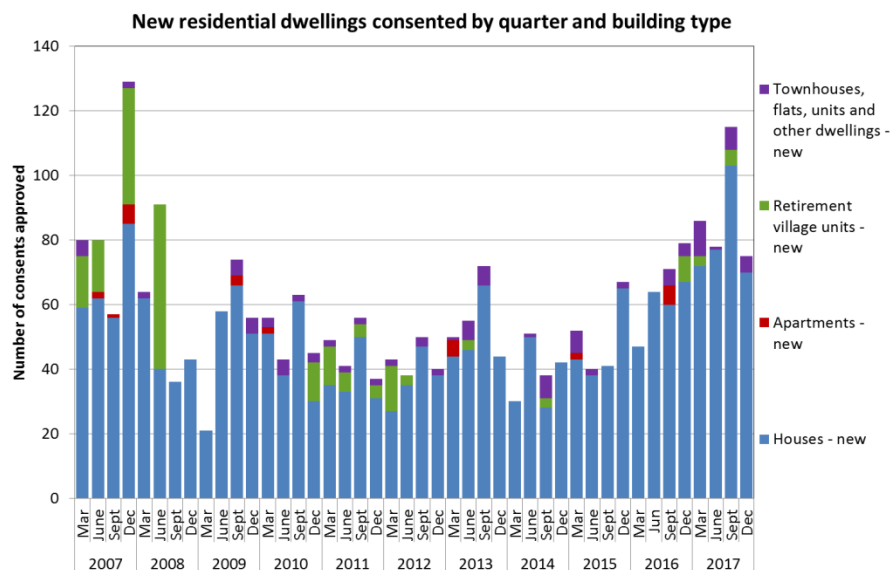


Note: The statistics for new dwelling consents approved differ from the statistics published by Statistics New Zealand, due to an error by it in the classification of 13 new dwelling consents, 11 of which were classified as residential addition and alteration consents and two as non-residential consents.

The rate of growth in consents approved for the construction of new houses slowed in the last quarter of 2017, with a decline of 5 percent in the December 2017 quarter compared with the December 2016 quarter.

Strong growth was recorded in the September 2017 quarter following the introduction of a new online consents processing system by the Council in late June.

(Source: Statistics New Zealand)

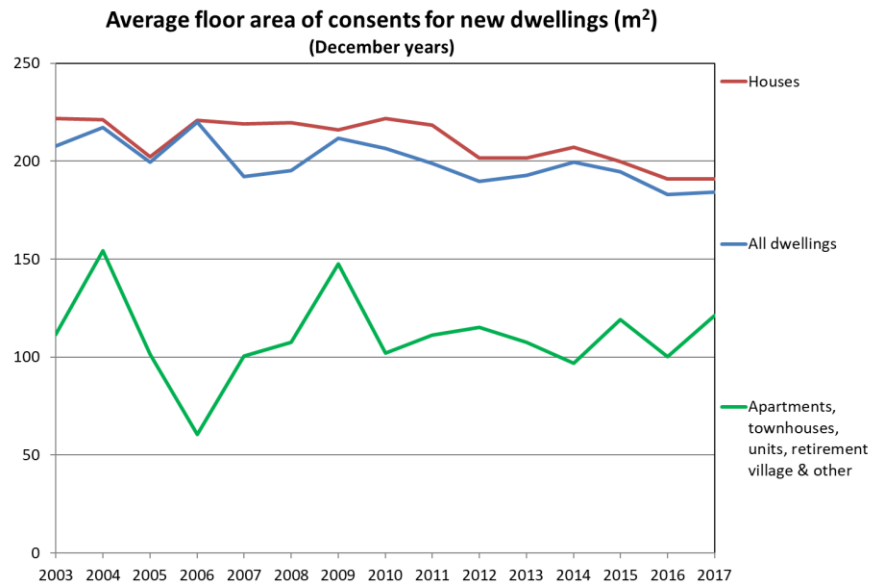


An increased share of the new dwellings consented during 2017 were for relocatable homes. Measuring how much these houses added to housing stock in the city is challenging because there is a delay between the approval of the consent and the completion of the construction of the houses approved. Many of these houses are being constructed in the city for relocation to sites across the lower North Island, but we have only partial data on the destination of the houses consented during 2017.

Data supplied by the company for the past two years shows that one quarter of houses completed by the company were relocated to a site within Palmerston North while the remaining three-quarters of houses were distributed across 13 territorial authorities in the lower North Island. Council will continue to monitor the production and destination of relocatable homes in order to assess the annual change in housing stock in the city.

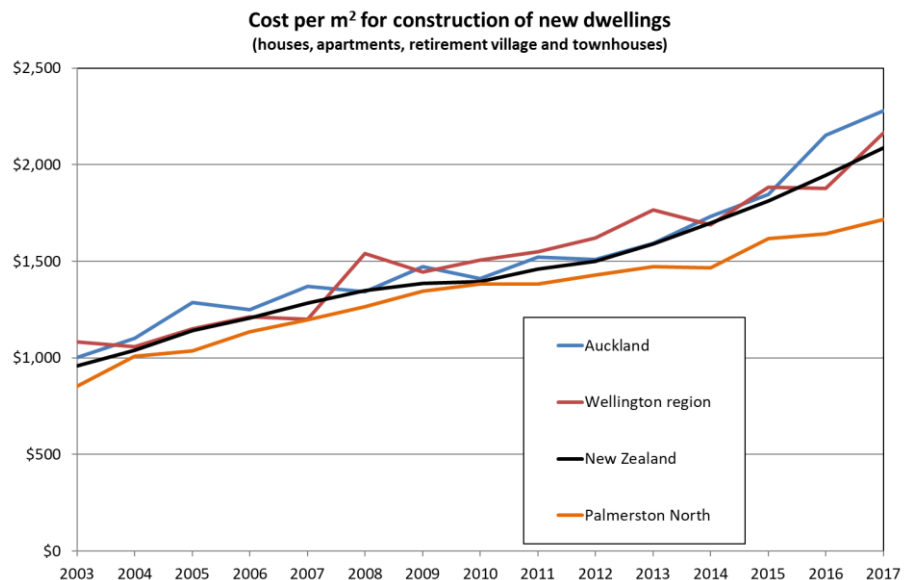
The average floor area of new dwellings consented in Palmerston North has been declining since 2010, when the average was 222m² to 191m² in the year to December 2017

(Source: Statistics New Zealand)



The average estimated cost of construction for houses consented in Palmerston North in the year ended December 2017 was \$1,720 per m², an increase of 5.5 percent from 2016 (excludes, apartments, town houses and retirement village units). The average for New Zealand was \$1,980 per m², an increase of 6.8 percent from 2016.

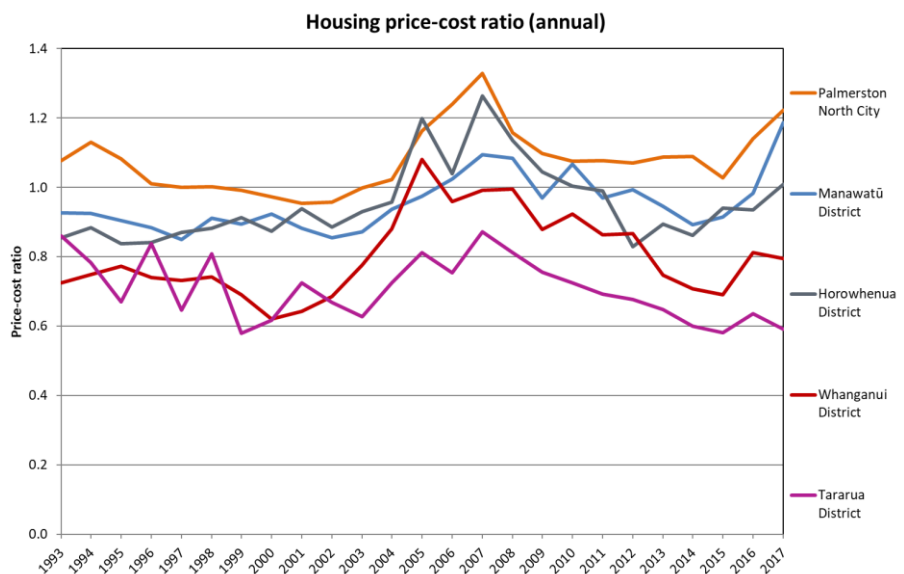
(Source: Statistics New Zealand)



The house price-cost ratio is a general indicator of the extent to which the costs of land or construction have been contributing to the prices of homes.

This signals if there is a shortage of sections and development opportunities relative to demand. The ratio rose strongly between 2005 and 2007, when there was a significant increase in the land value share of the total capital value of homes.

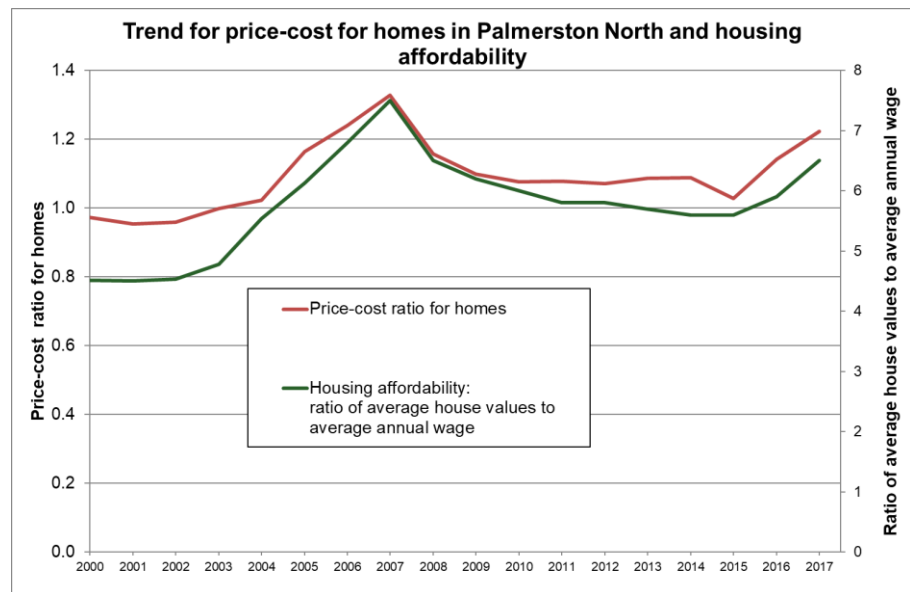
(Source: MFE/MBIE)



Guidance provided by MFE/MBIE notes that cost-price ratios between 1 and 1.5 suggest the supply of land and development opportunities are relatively responsive to demand.

The price-cost ratio shows a high correlation to change in housing affordability (based on average annual wages).

(Source: MFE/MBIE)



Rural-urban land value differential (residential)

The rural-urban land value differential (residential) attempts to measure the impact on the value of urban sections at the edge of the city, of current land use restrictions that constrain urban residential development capacity. It also is useful for assessing whether the District Plan has been providing sufficient urban development capacity for new homes.

The ratio is based on the modelled ratio and per square metre dollar difference between the values of all similar residential land parcels 2 kilometres either side of the boundary between urban and non-urban zones after major explainable other factors that affect different land values have been removed. The valuation data used for the estimates is the most recent valuation data available, ranging from 2004 to 2016. Land valuations in Palmerston North will be updated in September 2018 as a result of the next three-yearly revaluation.

Urban area	Ratio	Difference (\$/m ²)	Difference (\$/600m ² section) ¹
Auckland	3.15	\$345	\$206,722
Blenheim	1.46	\$61	\$36,303
Christchurch	2.23	\$150	\$90,136
Dunedin	1.29	\$38	\$22,505
Gisborne	1.22	\$24	\$14,352
Hamilton	2.42	\$227	\$136,213
Napier	1.66	\$102	\$61,372
Nelson	2.10	\$153	\$91,671
New Plymouth	1.61	\$92	\$55,080
Palmerston North	1.57	\$73	\$43,902
Queenstown	3.12	\$337	\$202,485
Rotorua	1.33	\$46	\$27,441
Tauranga	2.02	\$232	\$139,135
Wellington	2.30	\$201	\$120,371
Whangarei	2.00	\$80	\$48,064

¹ The example of an 600m section is provided as a typical size section at the edge of many cities.

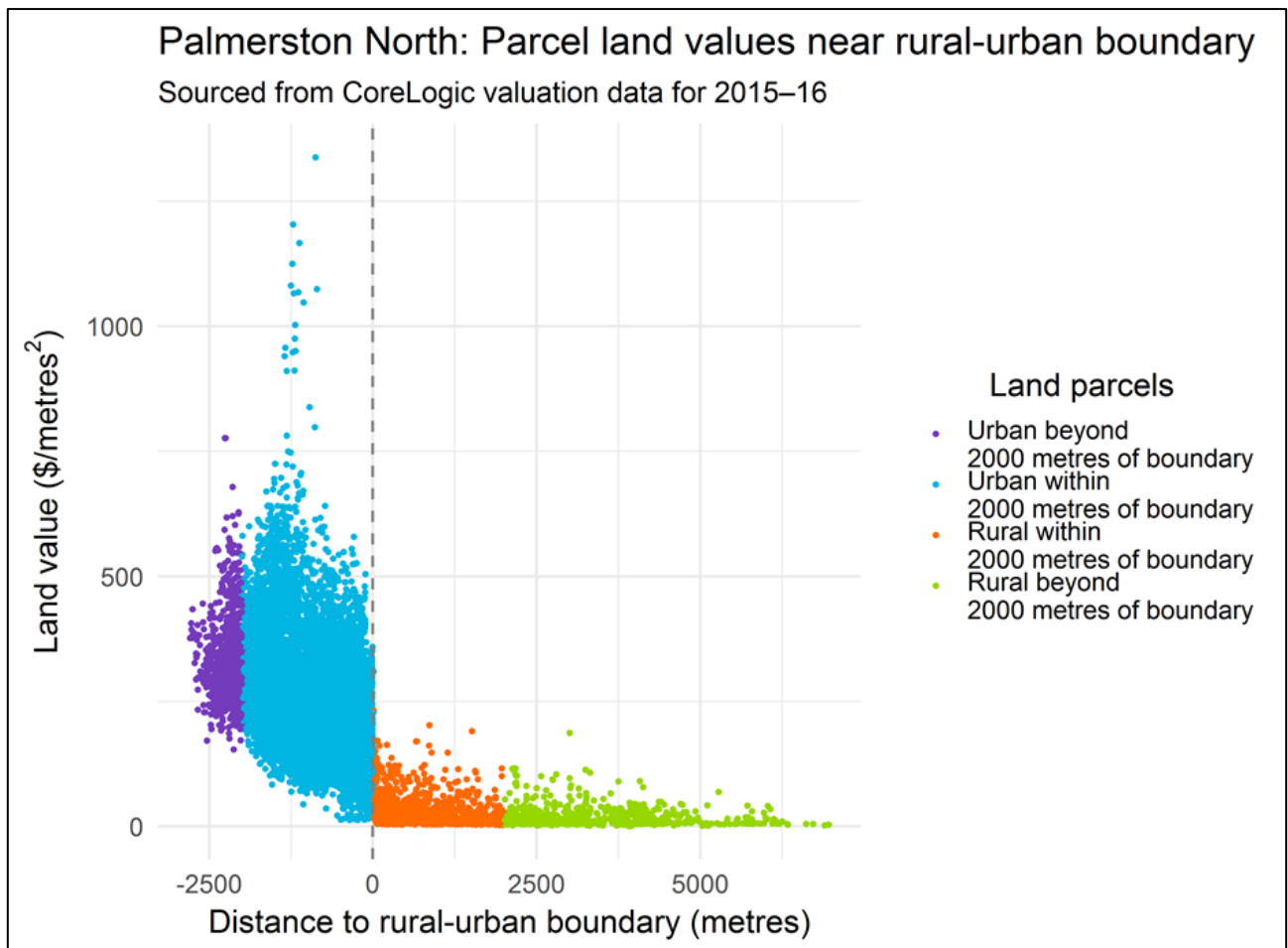
(Source: MFE/MBIE)

The rural-urban land value differential estimate suggests a difference of \$73 per m² for similar residential land parcels in Palmerston North 2 kilometres either side of the boundary between urban and non-urban zones, resulting in a difference of \$43,903 in the cost of land for a 600m² section. The estimated differential appears to be consistent with the different in the land value of sections in Palmerston North and Manawātū District. The estimated land value of sections in Palmerston North in September 2015 was \$150,233, while the estimated land value in Manawātū District was \$120,348 in September 2016.

The price-cost ratio does not suggest what might constrain the supply of sections to market. Some of the possible contributing factors identified by MFE and MBIE include:

- geography and terrain,
- concentrated land ownership,
- land-use regulations, and
- lack of infrastructure that restricts development

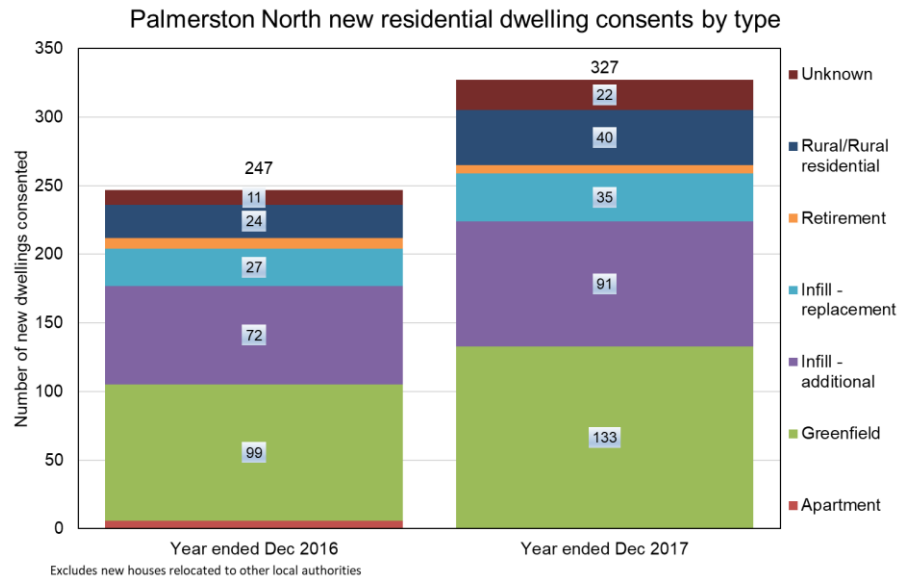
Land use is regulated by Councils but restrictions imposed by developers may also have an impact on the average value of vacant sections.



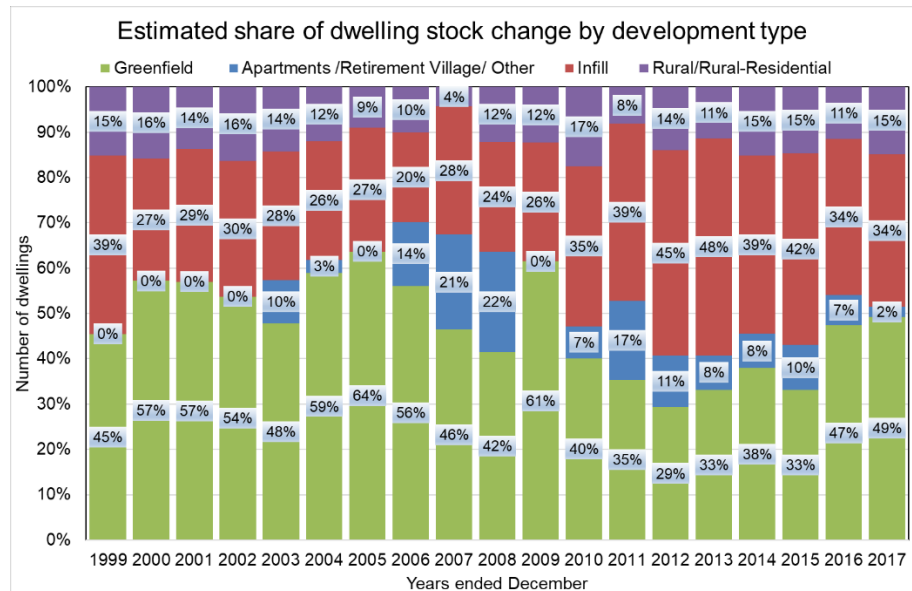
(Source: MFE/MBIE)

Distribution of building consents by type

Consents were issued for the construction of 356 new dwellings in Palmerston North in the year to December 2017, but the increase in housing stock was less than this. In the year to December, 36 new houses constructed in Palmerston North were relocated to another local authority area, while an estimated 35 consents were for the replacement of existing housing stock (Source: MFE/MBIE)

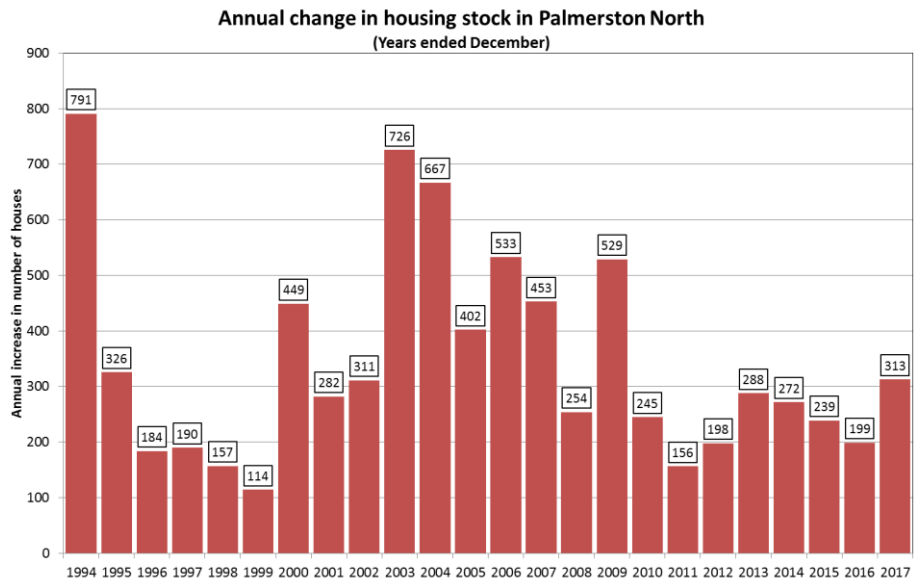


The greenfield share of housing stock change in 2017 was 49% of total dwelling change, the highest greenfield share since 2009. The infill share of 34% in 2017 was above the 1999 – 2017 average of 31%. (Source: MFE/MBIE)

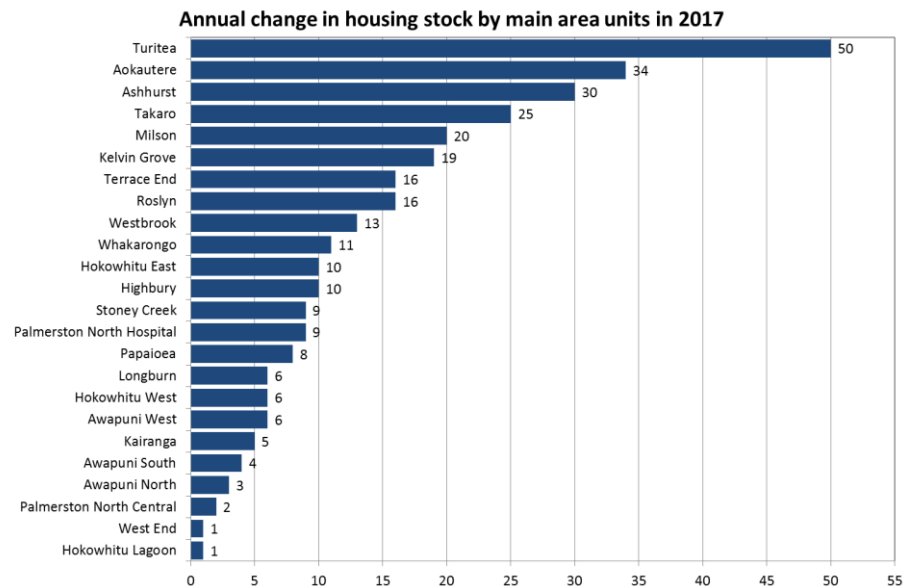


Estimated change in total housing stock

QV/Core Logic data suggests there were 313 additional dwellings in Palmerston North in December 2017 compared with December 2016. This was an increase of 57 percent from the previous year's increase of 199 dwellings. The 2017 increase was the largest increase since 2009. (Source: MBIE and QV/Core Logic)

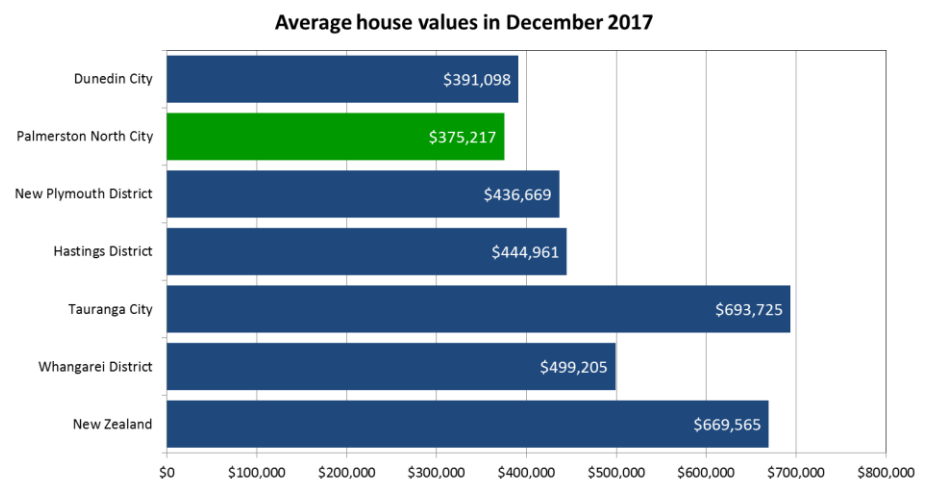


Kelvin Grove is contributing a declining share of new housing stock created in the city. Most of the growth in the Turitea area unit will be due to the extension of Pacific Drive from the Aokautere area unit into Turitea. Strong growth in housing units is also occurring in Ashhurst, Takaro, Milson, Terrace End and Roslyn. Housing growth has slowed in Hokowhitu and Papaioea. (Source: MBIE and QV/Core Logic)

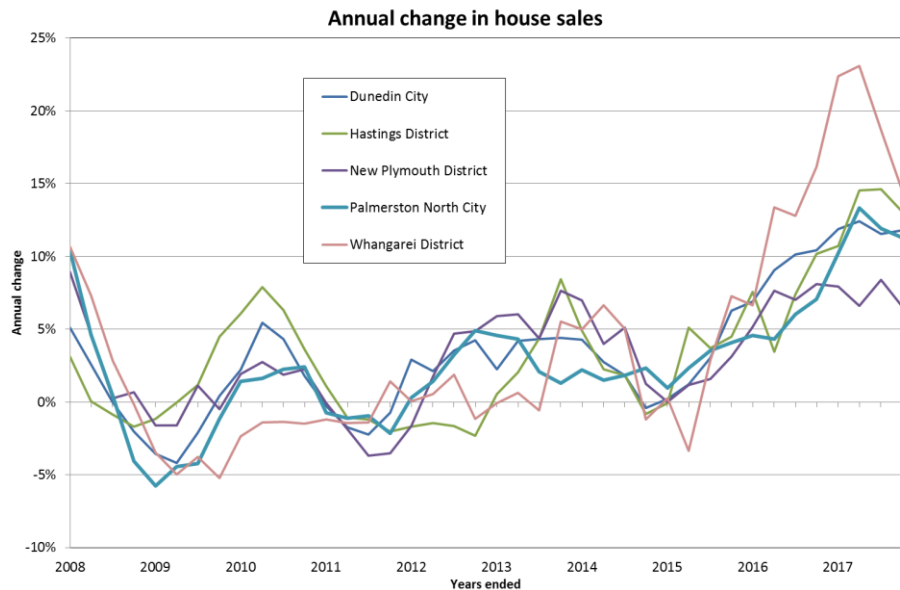


Average house values and annual sales

Average house values in Palmerston North increased by 11 percent in the year ended December 2017. The average value of \$375,217 in Palmerston North in December 2017 was lower than for comparable sized cities and district councils (based on estimated population numbers). (Source: MBIE and QV/Core Logic)



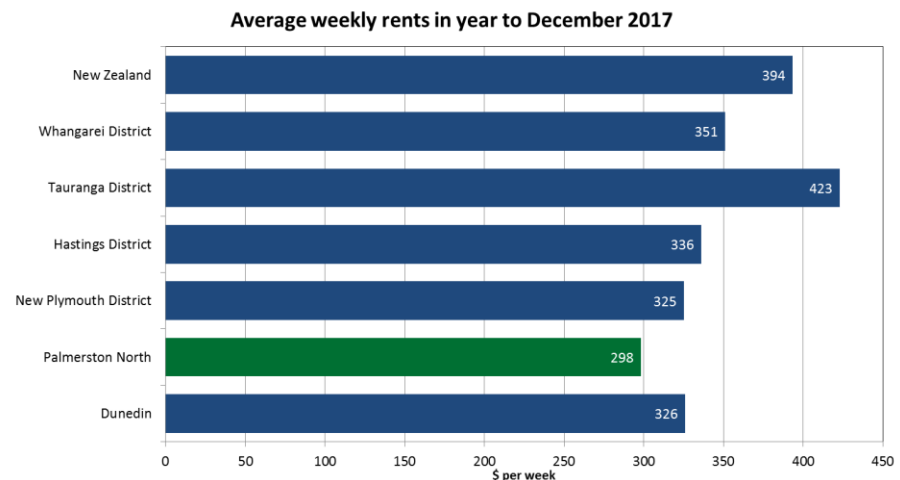
House sales in Palmerston North declined by 16 percent in the year to December 2017, but this followed an increase of 18 percent in 2016. The introduction of tighter borrowing limits by the Reserve Bank was the main contributor to the decline in house sales. (Source: MBIE and QV/Core Logic)



Average weekly rents (private sector)

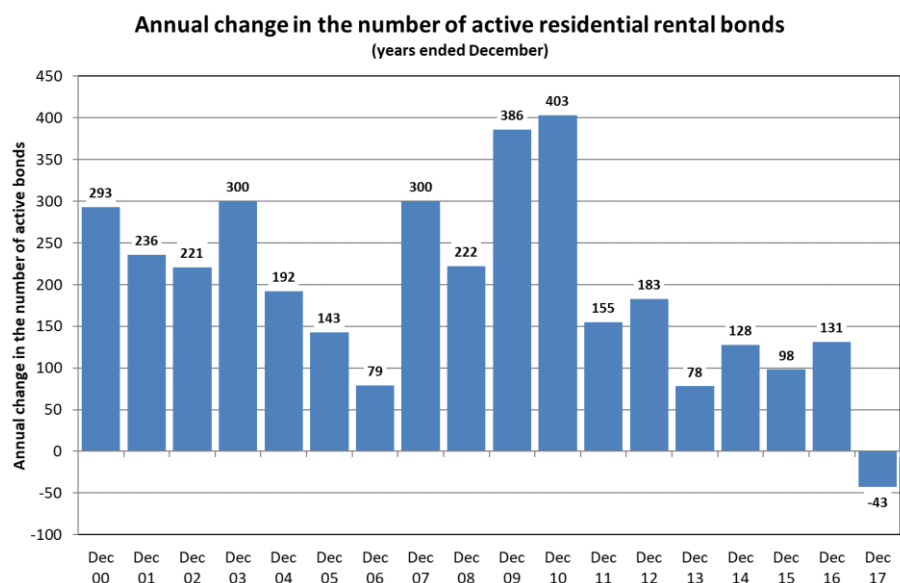
Average annual weekly rents (geometric mean) in Palmerston North increased by 4.8 percent in the year to December 2017. This was higher than the average increase for New Zealand of 4.4 percent.

Average weekly rent in Palmerston North was \$298 compared with the average of \$394 for New Zealand. (Source: MBIE)



There were 43 less active residential rental bonds in Palmerston North registered by the Ministry of Business, Innovation and Employment (MBIE) at the end of December 2017 compared with December 2016.

Annual growth in the number of residential rental properties in the City has slowed since peaking at 403 in the year to December 2010. The decline over the last year has occurred despite the increase in total housing stock in the city. (Source: MBIE)

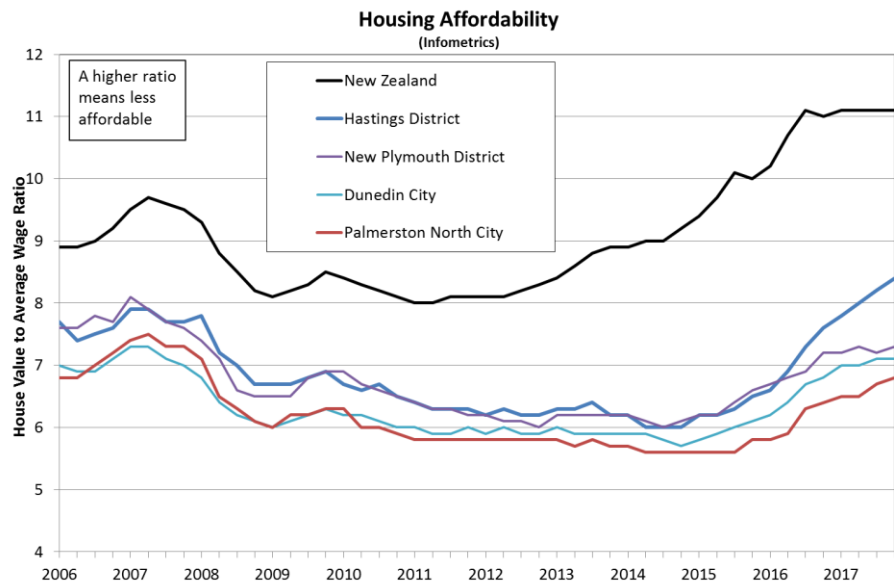


Housing Affordability

Housing affordability in Palmerston North deteriorated between December 2016 and December 2017. Average house values increased from 6.4 times average annual salaries and wages in December 2016 to 6.8 in December 2017. The affordability score for New Zealand in December 2017 was 11.1.

Affordability in Palmerston North is still better than in December 2007, when the ratio was 7.3

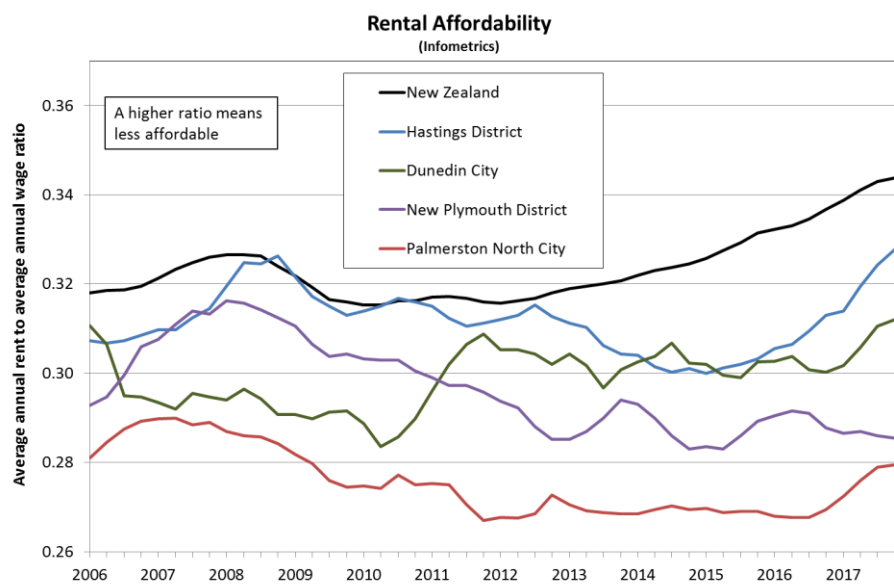
(Source: Infometrics)



Rental affordability in Palmerston North deteriorated between December 2016 and December 2017. Average rents increased from 27.0 percent of average annual salaries and wages in December 2016 to 28.0 percent in December 2017. The affordability score for New Zealand was 34.4 percent.

Affordability in Palmerston North is still better than in December 2007, when the ratio was 28.9 percent.

(Source: Infometrics)

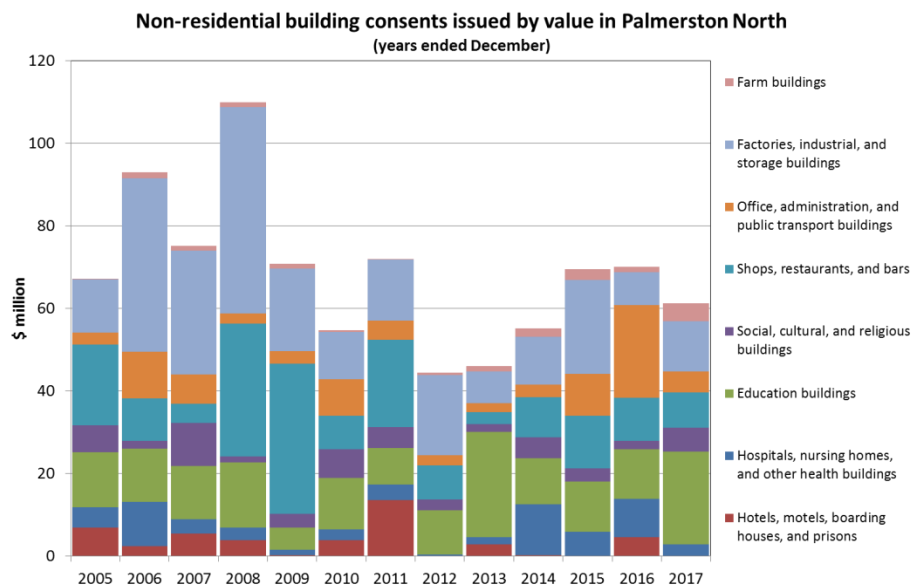


Non-residential building consents

The value of non-residential consents issued in the year ended December 2017 was \$61 million, a decline of 13 percent from 2016.

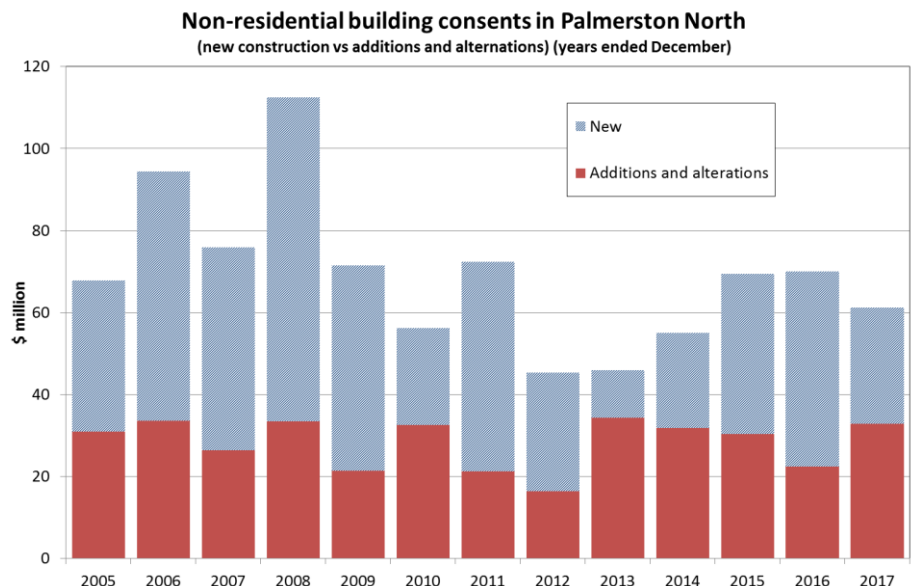
Office, administration and public transport building consents were \$4 million in the year to December 2017, compared with \$22 million in the previous year. The construction of the new office building for FMG was the largest contributor to the consents in the year to December 2016.

(Source: Statistics NZ)



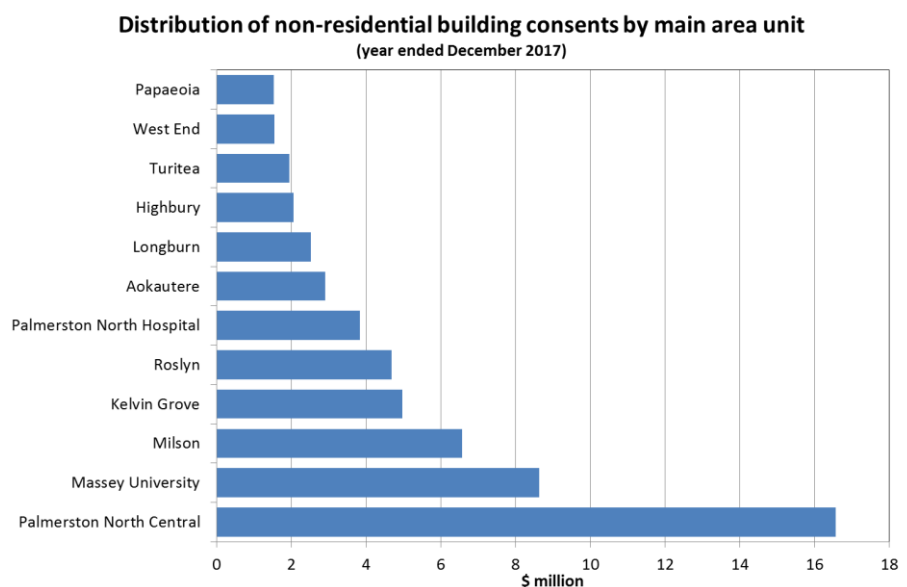
The annual value of consents for new non-residential buildings has averaged \$41 million between 2005 and 2017 while the annual value of consents for additions and alterations to non-residential buildings averaged \$28 million.

(Source: Statistics NZ)



Palmerston North Central area unit accounted for 27 percent of non-residential building consents (by value) in Palmerston North in the year to December 2017. This was slightly higher than the 2005 – 2017 average of 24 percent. The Milson area unit, which includes the North-East Industrial area and Airport, and has averaged 16 percent of consent values over the 2005 – 2017 period.

(Source: Statistics NZ)



Major construction projects

Major development and construction projects announced for Palmerston North and the Manawātū region amount to close to \$2.0 billion of construction activity over the period to 2030.

Some projects are still waiting for final approval, the largest being the MidCentral DHB investment plan. Some projects under development do not have final values, such as the Manawatu Gorge road replacement, but an indicative range has been estimated.

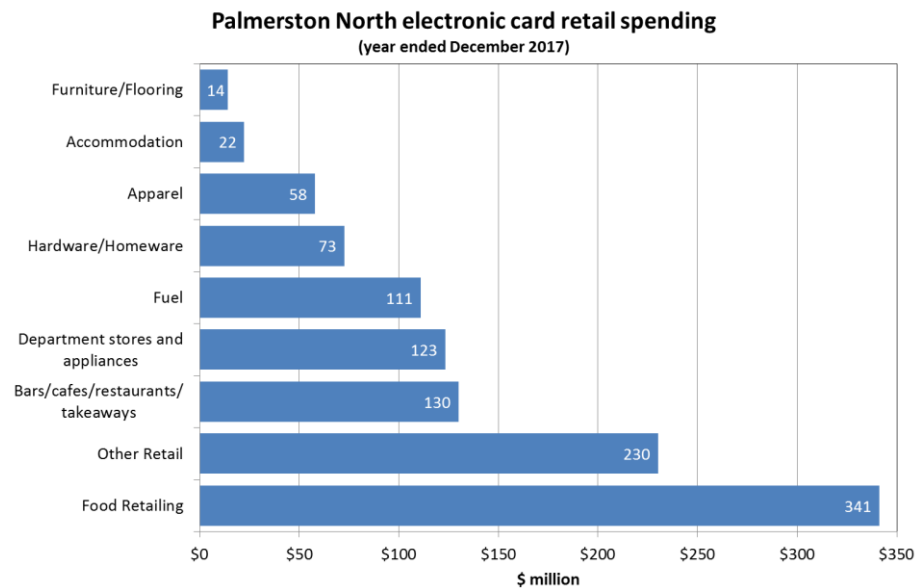
Total proposed capital expenditure by Palmerston North City Council over the 2018 – 2028 period is \$687 million, of which the wastewater treatment plant is the largest investment. Manawātū District's proposed capital budget is \$190 million.
(Source: Palmerston North City Council)

Development	\$ million	Timing
Linton and Ohakea regeneration plan	397	2016 - 2030
Manawātū Gorge	350 - 450	start 2020
MidCentral DHB investment plan (draft)	282	2016 - 2025
NZTA regional roading investment	200	2018 - 2024
Massey University capital plan	184	2016 - 2025
Powerco growth and security projects	150	2017 - 2024
Hokowhitu campus redevelopment	90 - 135	start 2018
Palmerston North wastewater plant	110	2024 - 2027
NZTA Whirokino trestle and bridge	70	start 2017
BUPA retirement village	40	start 2017
FoodHQ	39	start 2018
Westmount School	20	started 2017
Toyota parts distribution centre	20	started 2018
AgResearch	9	start 2018

Retail trends

Food retailing (supermarkets, liquor stores and other specialised food retailers) accounted for 30.9 percent of total electronic card spending in the year to December 2017.

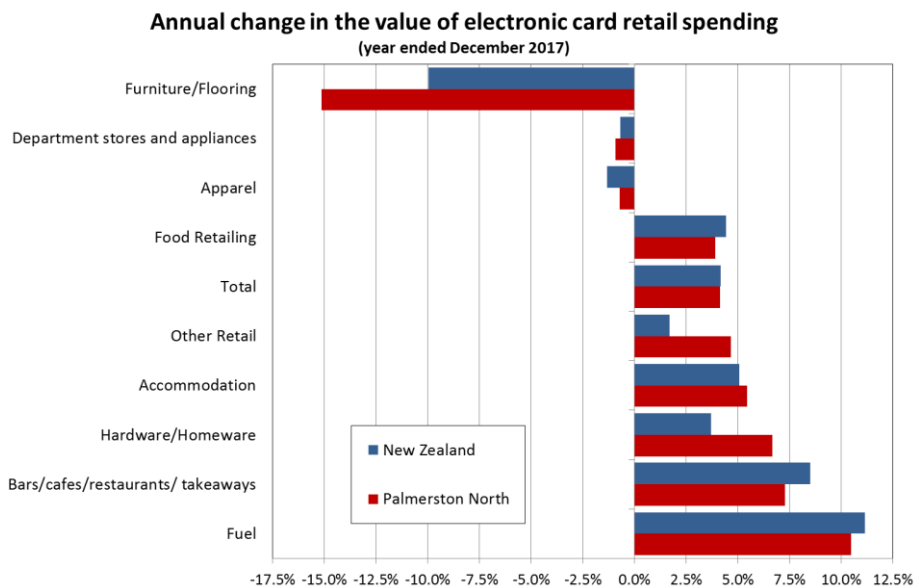
(Source: Marketview)



Both Palmerston North and New Zealand experienced a 4.2 percent increase in the value of electronic card retail spending in the year ended December 2017.

Declines in retail prices are a factor in the decline in the value of spending in some sectors, while growth in online purchases, and changes in product spending between different store types also influenced the rate of change in spending.

(Source: Marketview/Statistics New Zealand)



Annual change in retail prices from December 2016

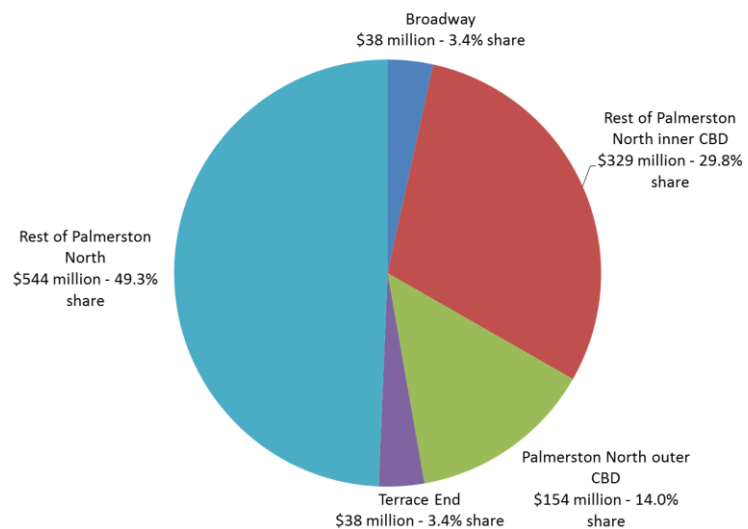
Storetype	(percent)
Electrical and electronic goods	-7.7
Department stores	-2.1
Clothing, footwear, and accessories	-1.1
Non-store and commission-based retailing	-0.5
Recreational goods	-0.4
Hardware, building, and garden supplies	0.1
Furniture, floor coverings, houseware, textiles	0.3
Pharmaceutical and other store-based retailing	0.5
Liquor	0.8
Food and beverage services	2.1
Supermarket and grocery stores	2.8
Specialised food	3.6
Fuel	7.6
Accommodation	8.0

In the 12 months ended January 2018, 47 percent of electronic card retail spending was recorded in the Palmerston North CBD:

- 33 percent in the inner CBD
- 14 percent in the outer CBD

(Source: Marketview)

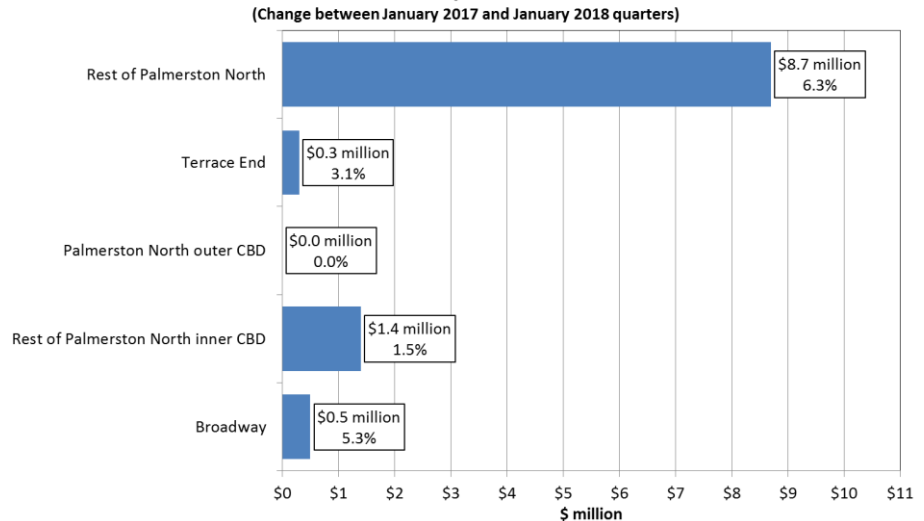
Distribution of electronic card retail spending in Palmerston North
(year ended January 2018)



Electronic card spending data for the three months ended January 2018 shows that most retail growth in the City occurred outside of the CBD. Growth in fuel prices will be one factor in the strong growth in spending outside of the CBD (fuel accounts for 24 percent of the total increase in spending). Weakness in spending at apparel, appliance and department stores is a factor in the weakness in CBD retail growth.

(Source: Marketview)

Change in electronic card retail spending in Palmerston North by retail precinct
(Change between January 2017 and January 2018 quarters)



Employment trends

Palmerston North Central area unit accounted for nearly 28 percent of total employment in Palmerston North in February 2017. That share has been declining due to declining employee numbers in parts of the retail sector. Supermarket employment in Palmerston North Central declined from 730 employees in 2000 to 410 in 2017, while department store employees declined from 480 in 2000 to 210 in 2017.

Sectors which experienced strong growth in Palmerston North Central included:

- Central government
- Cafes/restaurants/takeaways
- Employment services
- Office administrative services

Milson and Kelvin Grove area units experienced strong growth in jobs between 2000 and 2017. This was mostly due to strong growth in the logistics sector (wholesale trade and transport, postal and warehousing), which increased by 1,750 jobs in the city over this period.

The biggest contributor to job growth between 2000 and 2017 was health care and social services, where 2,300 jobs were created. Growth in aged care services contributed to strong growth in Milson, Westbrook and Aokautere

(Source: Statistics NZ)

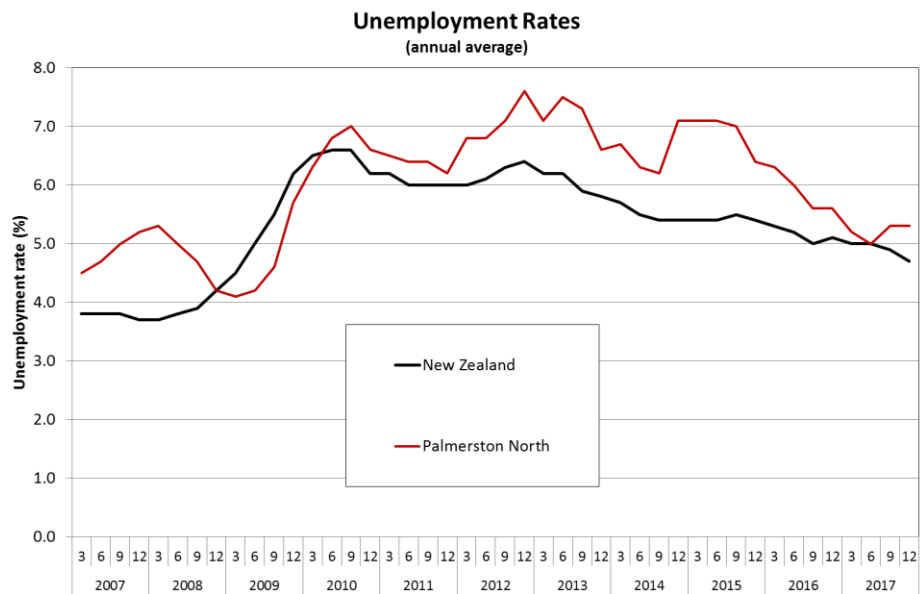
Employee counts by area unit in Palmerston North			
Employee count as at February 2017	Feb 2017	2000 - 2017 change	
	Number	Number	%
Palmerston North City	48,200	9,200	23.6%
Palmerston North Central	13,400	700	5.5%
Palmerston North Hospital	4,650	650	16.3%
Massey University	3,950	200	5.3%
Roslyn	3,500	800	29.6%
Milson	3,100	1,450	87.9%
Linton Military Camp	2,700	800	42.1%
Kelvin Grove	2,500	1,400	127.3%
Cloverlea	2,300	500	27.8%
Papaeoia	1,950	450	30.0%
Takaro	1,650	550	50.0%
West End	1,450	470	48.0%
Turitea	1,000	220	28.2%
Longburn	710	90	14.5%
Hokowhitu East	640	-40	-5.9%
Highbury	520	170	48.6%
Hokowhitu Lagoon	480	200	71.4%
Aokautere	480	260	118.2%
Hokowhitu West	460	-190	-29.2%
Awapuni South	420	70	20.0%
Ashhurst	390	120	44.4%
Whakarongo	380	170	81.0%
Awapuni West	360	40	12.5%
Westbrook	280	-10	-3.4%
Terrace End	260	50	23.8%
Kairanga	250	30	13.6%
Stoney Creek	210	110	110.0%
Awapuni North	160	-100	-38.5%

Unemployment

The average rate of unemployment in Palmerston North in the year to December 2017 was 5.3 percent, down from 5.6 percent in 2016.

Palmerston North's unemployment rate is higher than the average for New Zealand due to its young population. The median age for the city's population was 37 years in June 2017 while the median for New Zealand was 43 years.

(Source: Statistics NZ/ Infometrics)



Earnings

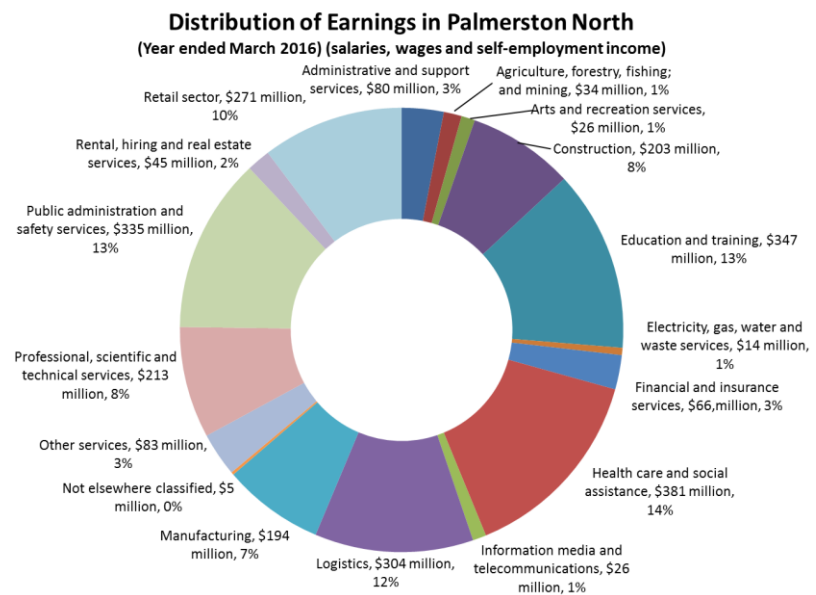
Health care and social assistance is the largest sector for earnings from salaries, wages and self-employment, contributing 14 percent of total earnings in the city. Other major sectors in the city are:

Education and training, 13 percent

Public administration and safety services (includes defence) 13 percent

Logistics 12 percent

Retailing 10 percent.
(Source: Statistics NZ)



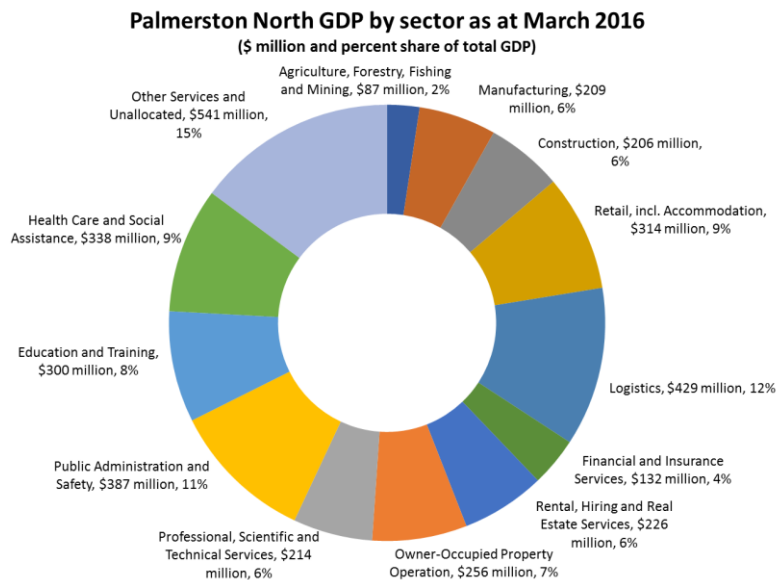
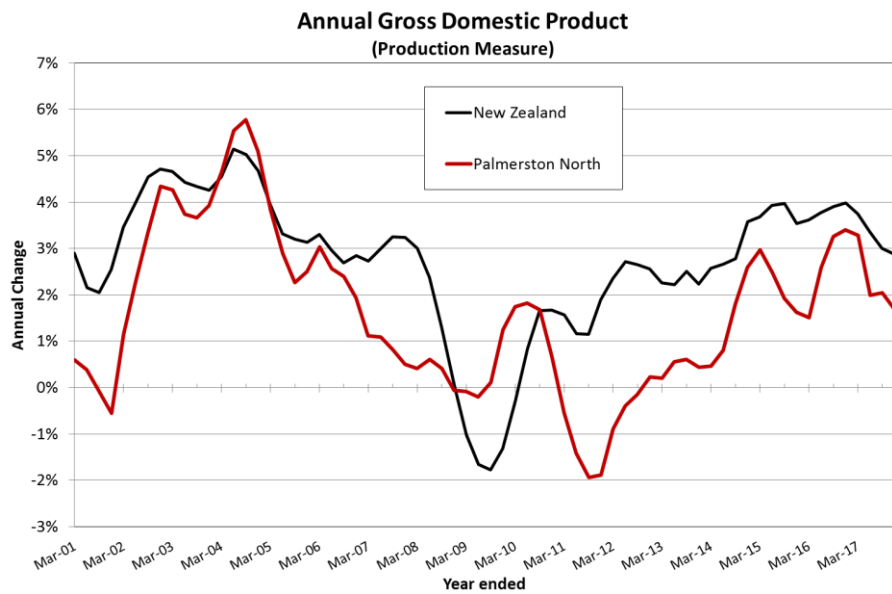
Gross Domestic Product (GDP)

The latest Infometrics GDP estimates suggest Palmerston North GDP increased by 1.7 percent in the 12 months ended December 2017. National GDP growth was 2.9 percent.

The Infometrics estimates for 2017 are provisional and will be revised once employment data is published later this year.

GDP growth in the city has lagged the national growth rate since 2010. National growth was boosted from late 2010 by the investment in the Canterbury post-earthquake rebuild and significant investment in the Roads of National Importance and construction of housing in Auckland.

GDP growth in Palmerston North is expected to accelerate in 2018 due to strong growth in construction activity.
(Source: Infometrics)



Tourism

Tourism is not identified in the earnings and GDP analysis above as it does not correspond with a single industry activity. Statistics New Zealand uses a satellite account to estimate the total economic contribution of tourism.

Total visitor earnings in the city in the year ended December 2017 were \$401 million, ranking it 12th overall among the 67 local authorities.

Domestic visitor spending was \$341 million while international visitor spending was \$60 million. Between 2009 and 2017, total visitor spending increased by \$100 million, an increase of 33 percent. Domestic visitor spending in the city increased by 32 percent while international visitor spending increased by 40 percent.

The 'retail sales – other' category is the biggest sector for tourism expenditure in Palmerston North. It includes apparel, appliances, department stores, furniture and flooring, hardware and homeware and other general retail stores.

The Manawatū-Whanganui region is the largest source of visitor spending in the city, following by visitors from the Wellington and Auckland regions. Australia is the largest source of international visitor spending but there has been strong growth in spending from China and Europe.

(Source: Ministry of Business, Innovation and Employment (MBIE)/Statistics New Zealand)

Visitor spending during the year ended December 2017 (\$ million)		
Rank	Total visitor spending	
1	Auckland	8,204
2	Queenstown-Lakes District	2,651
3	Christchurch City	2,296
4	Wellington City	1,773
5	Hamilton City	852
6	Rotorua District	806
7	Tauranga City	773
8	Dunedin City	721
9	Taupo District	627
10	Far North District	510
11	Whangarei District	477
12	Palmerston North City	401
13	Marlborough District	366
14	Thames-Coromandel District	360
15	Nelson City	350
16	Westland District	341
17	Napier City	341
18	Southland District	322
19	Tasman District	313
20	New Plymouth District	305
21	Mackenzie District	272
22	Hastings District	240
23	Invercargill City	225
24	Lower Hutt City	215
25	Timaru District	215

Tourism expenditure in Palmerston North
(year ended December 2017)

