



# HOUSING & BUSINESS DEVELOPMENT CAPACITY ASSESSMENT

SUMMARY REPORT

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May 2019



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# 1. INTRODUCTION

- 1.1. This document is a summary of the May 2019 report prepared to meet the Council's requirements under the National Policy Statement on Urban Development Capacity 2016 (NPS). The NPS requires that local authorities with urban area resident populations of over 30,000 people shall, on at least a three-yearly basis, carry out a housing and business development capacity assessment that:
  - a. Estimates the demand for dwellings, including the demand for different types of dwellings, locations and price points, and the supply of development capacity to meet that demand, in the short, medium and long-term; and
  - b. Estimates the demand for the different types and locations of business land and floor area for businesses, and the supply of development capacity to meet that demand, in the short, medium and long-term; and
  - c. Assesses interactions between housing and business activities, and their impacts on each other.
- 1.2. Palmerston North was classified as a medium-growth urban area by the NPS because its resident population is projected to grow by 9.5% between 2013 to 2023 according to the December 2016 Statistics New Zealand medium urban area population projections.
- 1.3. The NPS states that local authorities shall ensure that at any one time there is sufficient housing and business land development capacity. Sufficiency is based on the following requirements:

<b>Short-term</b>	Development capacity must be feasible, zoned and serviced with development infrastructure.
<b>Medium-term</b>	Development capacity must be feasible, zoned and either: <ul style="list-style-type: none"><li>• serviced with development infrastructure, or</li><li>• the funding for the development infrastructure required to service that development capacity must be identified in a Long-term Plan required under the Local Government Act 2002.</li></ul>
<b>Long-term</b>	Development capacity must be feasible, identified in relevant plans and strategies, and the development infrastructure required to service it must be identified in the relevant Infrastructure Strategy required under the Local Government Act 2002.

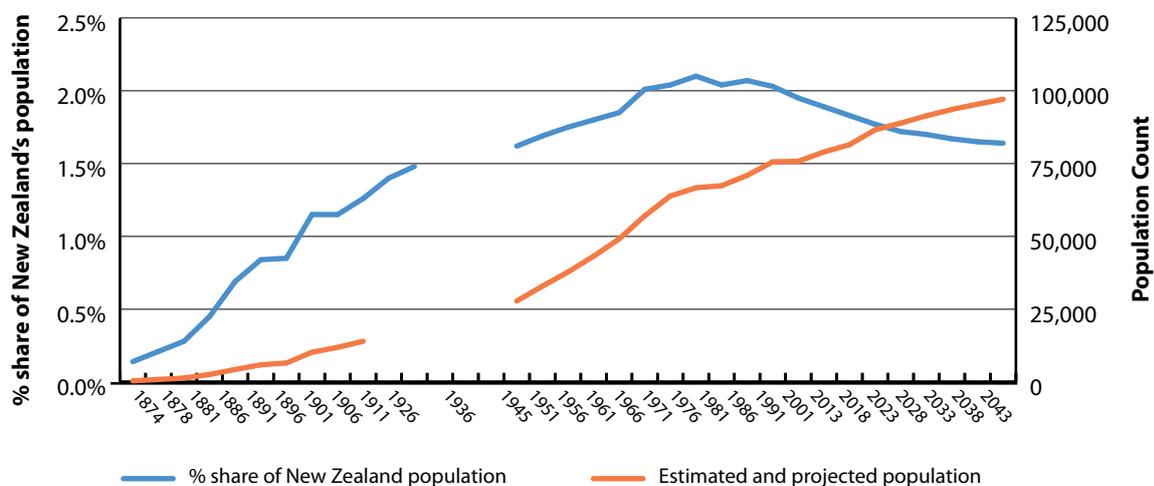
- 1.4. The NPS also requires local authorities to factor in the proportion of feasible development capacity that may not be developed, in addition to the requirement to ensure sufficient, feasible development capacity as outlined in NPS policy PA1, local authorities shall also provide an additional margin of feasible development capacity over and above projected demand of at least:
  - 20% in the short and medium term, and
  - 15% in the long term.

## 2. HOUSING DEMAND AND DEVELOPMENT CAPACITY

### Assessing demand for housing

- 2.1. Projections for future growth in the number of households draw heavily on past development patterns and population trends, as well as anticipated changes in those trends. Historic Statistics New Zealand urban area population data shows Palmerston North's population grew rapidly from its founding in 1866, growing faster than the national rate of growth until the early 1980s. Since then its population has continued to grow, but more slowly than the rate of growth for New Zealand (see Figure 1).

**Figure 1: Palmerston North's urban area population**



Source: Statistics New Zealand

- 2.2. The latest population projections suggest the city will continue to grow more slowly than the rate of growth for New Zealand but that the rate of growth will be higher than the city has experienced since the early 1990s. Recent changes in population and economic growth across the wider Manawatū-Whanganui region, however, mean there is potential that growth in the city will be stronger than the medium population and household projections.
- 2.3. A significant factor contributing to the slowing in population growth and housing demand in Palmerston North was weak economic growth and population decline in the Manawatū-Whanganui region, which contributed to a widening in the gap between house values in Palmerston North and local authorities close to Palmerston North. March 2000 quarter data for average house values shows that house prices in the region around Palmerston North were between \$20,000 and \$80,000 below the average for Palmerston North. The gap has been relatively stable between Palmerston North and Manawatū District but has widened with other councils since 2000, increasing to more than \$160,000 in some districts.
- 2.4. The increasing difference in house values has resulted in significant growth in the city's labour market catchment, with 2013 Census data showing around 20% of the city's workforce coming from other local authorities. Manawatū District (11.9% share) and Horowhenua District (3.2% share) are the largest contributors to the city's workforce (see Table 1).

**Table 1: Usual residence of people who work in Palmerston North (Census 2013)**

Place of Residence	Number	% share of city workforce
Palmerston North City	31,425	79.1%
Manawatū District	4,719	11.9%
Horowhenua District	1,260	3.2%
Tararua District	507	1.3%
Rangitikei District	492	1.2%
Wanganui District	315	0.8%
Kapiti Coast District	147	0.4%
Wellington City	84	0.2%
Total selected territorial authorities	7,524	18.9%
Other territorial authorities	771	1.9%
Total Palmerston North workforce	39,720	100.0%

Source: Statistics New Zealand

- 2.5. Since September 2018, economic growth (gross domestic product (GDP)) in the Manawatū-Whanganui region has been stronger than the overall rate of economic growth for New Zealand. This is a key contributor to the strong population growth which has been occurring in the region. GDP estimates produced by Infometrics suggest economic growth in the city accelerated during 2018 and also now stronger than the overall growth rate for New Zealand. This rapid change in economic performance and population growth in Palmerston North has created challenges for the Council in assessing short-term and medium-term demand for housing in the city. To assist with this, Sense Partners was commissioned by the Council in August 2017 to produce alternative population and household projections for the council's 2018-28 Long-term Plan.

**Table 2: Long-term medium population projections for Palmerston North**

Period ended	Sense Partners (September 2017)			Statistics New Zealand (December 2016)		
	Population count	Average annual change number of people	rate of change (%)	Population count	Average annual change number of people	rate of change (%)
2001	77,100			77,100		
2006	80,800	740	0.9%	80,800	740	0.9%
2013	83,500	386	0.5%	83,500	386	0.5%
2018p	88,730	1,046	1.2%	88,200	940	1.1%
2023p	93,650	984	1.1%	91,400	640	0.7%
2028p	98,118	894	0.9%	94,200	560	0.6%
2033p	102,444	865	0.9%	96,700	500	0.5%
2038p	106,823	876	0.8%	98,800	420	0.4%
2043p	111,840	1,003	0.9%	100,700	380	0.4%

Source: Statistics New Zealand

- 2.6. These alternative growth projections were sought because of concerns that the Statistics New Zealand migration projections were not consistent with current growth trends in the city. The median population growth projections produced for the Council by Sense Partners were close to the high growth scenario projections produced by Statistics New Zealand, and represent a significant increase in growth from what has been experienced in recent years.

**Table 3: Alternative long-term medium population projections for Palmerston North**

	Sense Partners (September 2017)			Statistics New Zealand (December 2016)		
	Projection scenario			Projection scenario		
Period ended	Low (5%)	Medium (50%)	High (95%)	Low (5%)	Medium (50%)	High (95%)
2001	77,100	77,100	77,100	77,100	77,100	77,100
2006	80,800	80,800	80,800	80,800	80,800	80,800
2013	83,500	83,500	83,500	83,500	83,500	83,500
2018p	85,461	88,730	91,359	86,300	88,200	90,000
2023p	86,594	93,650	101,393	87,500	91,400	95,300
2028p	87,161	98,118	113,440	88,000	94,200	100,300
2033p	87,168	102,444	127,720	88,100	96,700	105,200
2038p	86,809	106,823	143,736	87,800	98,800	109,900
2043p	86,017	111,840	162,537	87,000	100,700	114,500

Source: Statistics New Zealand

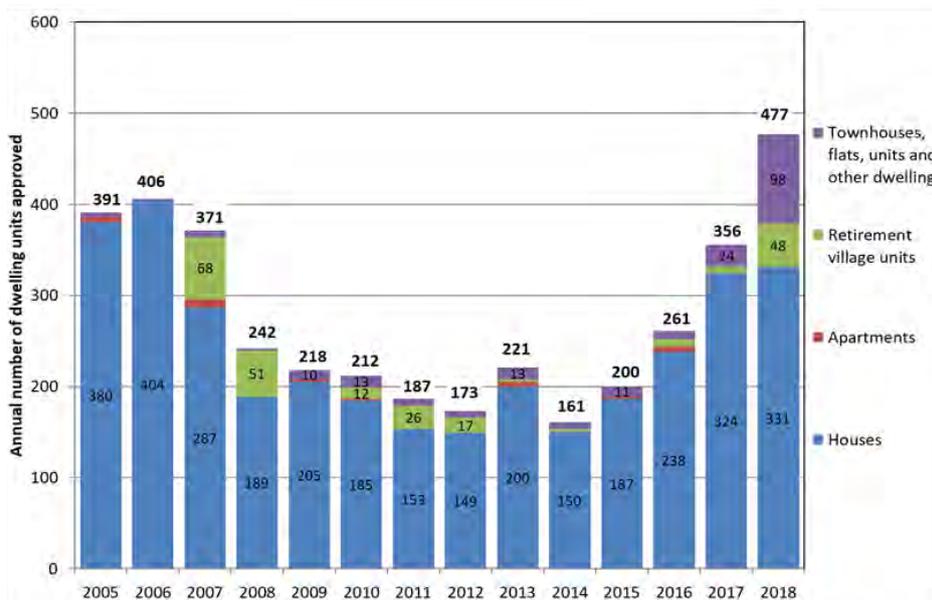
- 2.7. Both Statistics New Zealand and Sense Partners produced alternative growth projections, reflecting the uncertainty with growth projections. The Sense Partners projections suggest increased uncertainty about the rate of future growth in Palmerston North. Its low population projection suggests the city's population will reach 86,017 by 2043 while its high projection suggests a 2043 population of 162,537.
- 2.8. However, the Sense Partners projections do not take account of the significant increase in central government investment that is occurring in Palmerston North and the surrounding region, which is expected to continue for at least the next 15 years. These major construction projects are expected to bring a sizable increase in the construction workforce in the region, with a resulting increase in retail spending and purchases from the services sector.

- 2.9. Since the Sense Partners projections were completed, major construction projects which have been announced are:
- The Manawatū Gorge replacement road, which is budgeted to cost \$650 million, with construction occurring over four years from 2020.
  - KiwiRail new freight hub development, with an estimated construction cost of approximately \$200 million.
  - The P-8A Poseidon Maritime Patrol Aircraft – construction of hangers, runway improvements and other infrastructure at Ohakea – to be completed by 2023 – estimated to be \$150 - \$200 million. It is expected 270 Air Force personnel will be transferred from Whenuapai to Ohakea when the planes are delivered.
  - The construction of 33 wind turbines in Turitea by Mercury Energy, to the value of \$256 million, commencing around August 2019.
- 2.10. There are signs that population growth and housing demand are already higher than projected by Sense Partners in 2017. The Sense Partners projections suggest annual population growth in Palmerston North will slow from 1,040 people between 2013 and 2018 to 1,000 people between 2018 and 2023. Statistics NZ estimated that the city's population increased by 1,400 people between June 2017 and June 2018. Since GDP growth in the city has strengthened since June 2018, it appears likely that annual population growth will be above the annual growth of 1,000 people a year projected by Sense Partners.

## Housing supply and future housing demand

- 2.11. The Census 2013 identified 31,806 dwellings in Palmerston North, of which 29,892 were occupied, 1,917 were unoccupied and 99 were under construction. The number of dwellings increased by 1,221 between 2006 and 2013, an average annual increase of 174 dwellings a year. In 2013 empty dwellings accounted for 6.4% of total dwelling stock, which was below the national share of 11.8%. This is likely to be due to minimal holiday housing stock in the city.

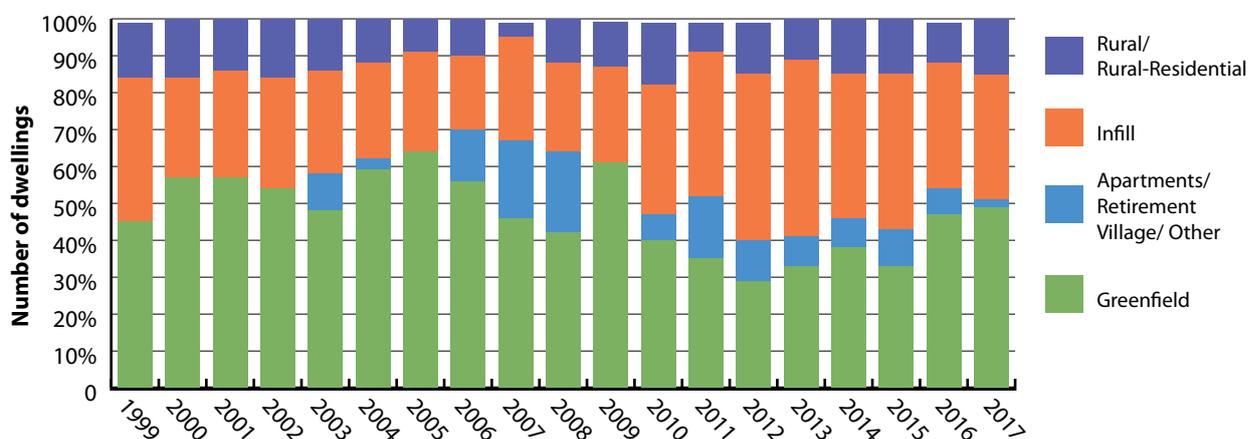
**Figure 2: New residential buildings consented by building type – years ended December**



Source: Statistics New Zealand

- 2.12. There has been a significant increase in housing construction in the city, with consents for the construction of new houses rising from 161 consents in the year to December 2014 to 477 consents in the year to December 2018.
- 2.13. The delay in release of Census 2018 housing stock data means we do not have an up-to-date inventory of the different types of housing stock in the city or data on the changes since the 2013 Census. Statistics New Zealand building consents data does show some change in the type of new housing being built in the city, with an increase in the *townhouses, flats, units and other dwellings* category (Figure 2 above). This category includes minor dwellings and multi-unit housing development.
- 2.14. Council monitoring of housing by type of development shows growth in the proportion of additional housing supplied by infill housing, while the greenfield share has declined. Figure 3 does not include rural or rural-residential development which occurred in Manawatū District prior to the 2012 transfer of the Longburn, Kairanga and Stoney Creek (which included Bunnythorpe) area units into Palmerston North.

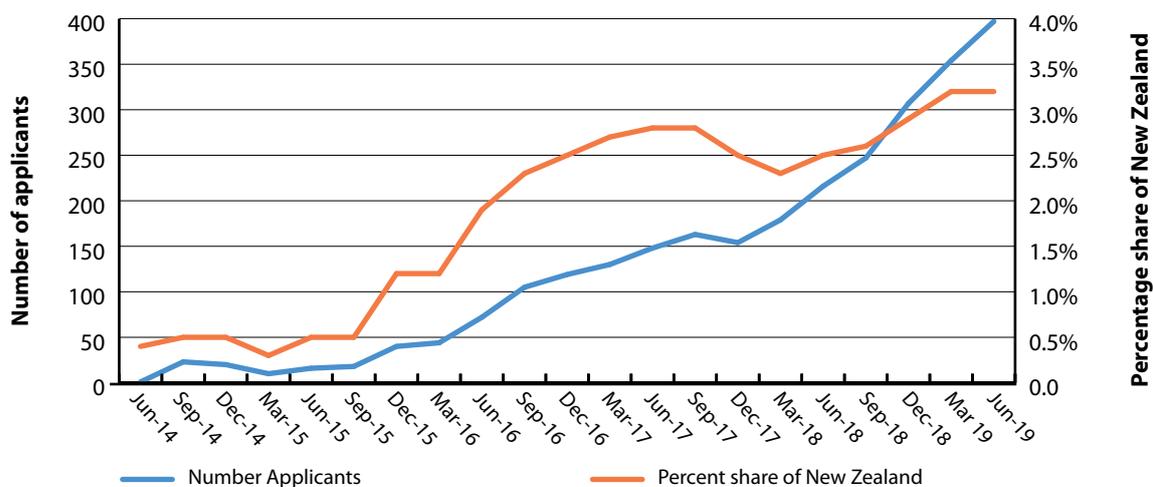
**Figure 3: Estimated share of dwelling stock change by development type**



Source: Palmerston North City Council

- 2.15. Housing demand is difficult to measure due to the lack of any data for the number of people looking to buy a house or to rent. Measuring housing demand by housing type is more difficult than measuring total housing demand, but data that is now being published on the social housing register offers some useful insights on the level of demand for smaller housing units.
- 2.16. December 2018 quarter social housing register data shows 136 applicants seeking one-bedroom housing and 120 applicants seeking two-bedroom housing, with the two categories accounting for 83% of applicants on the register.

**Figure 4: Housing New Zealand social housing register**



Source: MSD

## Household growth projections

2.17. Household growth projections are used to assess the amount of new housing that needs to be built in the city. Table 4 compares the household growth projections prepared by Statistics New Zealand and the alternative projections commissioned by the Council from Sense Partners.

**Table 4: Long-term medium household projections for Palmerston North**

Period ended	Sense Partners (September 2017)			Statistics New Zealand (December 2016)		
	Households	Average annual change		Households	Average annual change	
		Number of households	Rate of change(%)		Number of households	Rate of change(%)
2001	28,000			28,000		
2006	28,900	180	0.6%	28,900	180	0.6%
2013	31,500	371	1.2%	31,500	520	1.2%
2018p	33,000	300	0.9%	33,500	400	1.2%
2023p	35,300	460	1.4%	35,100	320	0.9%
2028p	37,600	460	1.3%	36,600	300	0.8%
2033p	40,000	480	1.2%	37,900	260	0.7%
2038p	42,100	420	1.0%	39,000	220	0.6%
2043p	44,300	440	1.0%			

Source: Statistics New Zealand and Sense Partners

2.18. The rate of household growth in the city has been higher than the rate of population growth because the average number of occupants per household has been declining. The main contributors to smaller households have been smaller families, and more couple only and single person households. Declining fertility rates (a decline in the number of births per woman) and more single parent families are both contributors to the decline in average family size.

**Table 5: Sense Partners medium growth projections for families and households by type**

Family and household type								
Year at 30 June	One parent	Two parent	Multi-family	Couple	Multi-person	Alone	All households	Average household size
2018	3,332	7,504	1,019	11,041	1,706	8,374	32,976	2.6
2023	3,461	7,576	1,045	12,090	1,695	9,399	35,266	2.6
2028	3,622	7,651	1,077	12,978	1,780	10,513	37,621	2.6
2033	3,823	7,879	1,125	13,728	1,866	11,605	40,026	2.5
2038	3,991	8,217	1,174	14,294	1,905	12,533	42,114	2.5
2043	4,164	8,573	1,224	14,942	1,998	13,360	44,261	2.5

Source: Sense Partner

- 2.19. The Sense Partners projections in table 5 suggest there will be growth in multi-family households, increasing by 20% between 2018 and 2043. This will be faster than the projected 14% increase in two-parent households but slower than the 25% increase in single parent family households. Growth in other household types is projected to be stronger, particularly in one-person households.

**Table 6: Alternative household growth projection**

	Sense Partners (September 2017)			Statistics New Zealand (December 2016)		
	Projection scenario			Projection scenario		
Period ended	Low (5%)	Medium (50%)	High (95%)	Low	Medium	High
2001	28,000	28,000	28,000	28,000	28,000	28,000
2006	28,900	28,900	28,900	28,900	28,900	28,900
2013	31,500	31,500	31,500	31,500	31,500	31,500
2018p	31,950	33,000	33,793	32,900	33,500	34,100
2023p	32,985	35,300	37,802	33,900	35,100	36,400
2028p	33,927	37,600	42,885	34,600	36,600	38,500
2033p	34,738	40,000	48,825	35,100	37,900	40,700
2038p	35,103	42,100	55,043	35,300	39,000	42,700
2043p	35,167	44,300	62,045	35,300	39,000	42,700

Source: Sense Partner

- 2.20. Sense Partners and Statistics New Zealand also produced low-growth and high-growth alternative household projections. The high growth projections from Sense Partners suggest nearly a doubling in housing stock over 25 years, with the number of households increasing by an average of 1,130 a year, while its median projection suggests annual growth of 452 households a year.
- 2.21. The responsive planning targets of the NPS (policies PC1 to PC4) require councils to provide an additional margin of feasible development capacity over projected housing demand of at least:
- 20% in the short and medium term, and
  - 15% in the long term.



2.22. Table 7 is based on the Sense Partners household projections and the additional margin for feasible capacity that is required in the NPS.

**Table 7: Medium and long-term target for housing supply**

Timeframes	Medium Term	Long Term	30-year Total
Dates	July 2018 - June 2028	July 2028 - June 2048	July 2018 - June 2028
Additional Margins	Medium-term target includes an additional margin of 20%	Long-term target includes an additional margin of 15%	Combination of both growth targets
<b>Minimum target for household growth</b>	<b>5,520</b>	<b>10,440</b>	<b>15,960</b>
<b>Projected actual demand for household growth</b>	<b>4,600</b>	<b>8,700</b>	<b>13,300</b>
<b>Residential preference</b>	<b>Based on minimum growth target</b>		
Greenfield	2,760	5,220	7,980
Infill	2,098	3,967	6,065
Rural/rural-residential	662	1,253	1,915

Infill share includes retirement villages and apartments

Housing preferences is based on an estimate of greenfield 50%, infill 38% and rural/rural-residential 12%

Source: Sense Partners and Palmerston North City Council

## Price efficiency indicators

2.23. How land is distributed between different land owners can 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. Land concentration data published by the Ministry of Business, Innovation and Employment (MBIE) on the Urban Development Capacity dashboard suggests Palmerston North has a low land concentration index score (304), but the map provided with the assessment, shows that vacant residential land in Feilding was included in the calculation of the index. The MBIE estimates also missed links between land-owning companies and the individuals who are the shareholders of those companies or who control the development of that land.

**Table 8: Ownership of vacant commercial and residential land in Palmerston North as at November 2018 (ha.)**

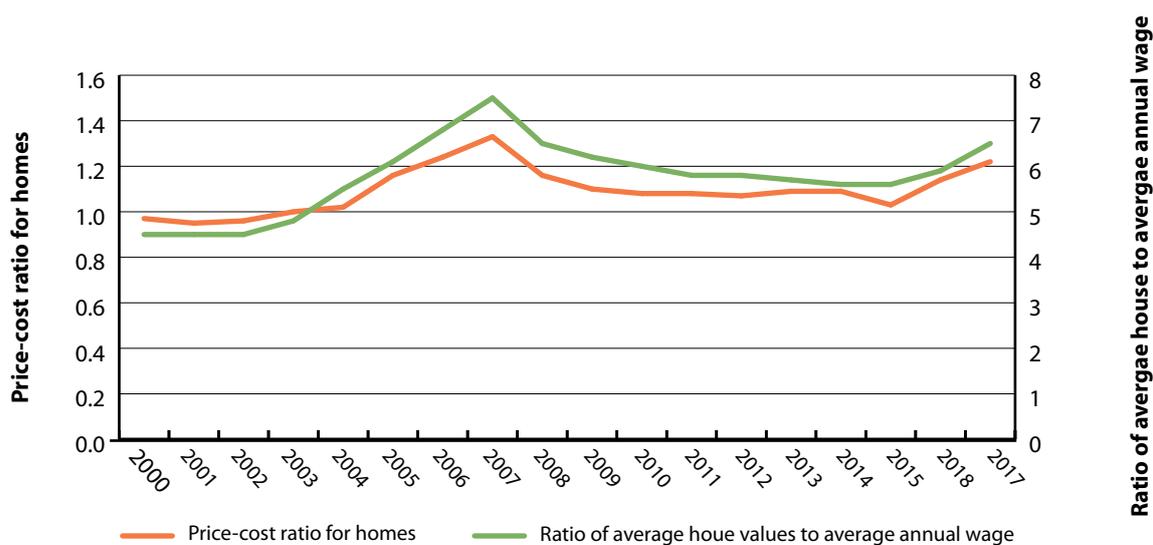
Land owners	Commercial/ Industrial (non- residential)	Residential	Rural	Vacant commercial/ Industrial (Non- Residential)	Vacant Residential	Total vacant land <sup>1</sup>	Total land
Brian Green Properties	24	1	67	21	38	59	114
PMB / Higgins Family Holdings	51	0	434	44	9	53	496
Marriott / Challenge Manawatū	0	0	0	0	16	16	16
Fugle / Aokautere Land Holdings Ltd	0	0	91	0	15	15	106
EE Fair / Fair Investments	4	0	0	5	9	14	18
Wallace Development Company	1	0	0	0	13	13	14
Farquhar / Pioneer Farms Ltd	0	0	73	0	3	3	76
PN Maori Res Trust	6	2	0	0	1	1	10
<b>Subtotal</b>	<b>87</b>	<b>3</b>	<b>665</b>	<b>70</b>	<b>102</b>	<b>172</b>	<b>916</b>
Other owners	5,375	2,007	25,036	45	21	66	32,496
<b>Total</b>	<b>5,462</b>	<b>2,011</b>	<b>25,701</b>	<b>115</b>	<b>123</b>	<b>239</b>	<b>33,412</b>

<sup>1</sup> The vacant residential land total does not include the Whakarongo residential growth area of 54ha. Source: Palmerston North City Council rates database

2.24. Table 8 is based on the Council's rating database, but adjustments were made to the ownership of two significant blocks of land, where the record of ownership did not recognise the individuals who are actively involved in the development of that land.

2.25. The MBIE/MfE price-cost ratio developed for the housing assessment measures the gap between house prices and construction costs in each urban area. It was developed as an indicator of the extent to which house prices are driven by the costs of construction or the cost of land (the estimate for the cost of land is based only on infrastructure-serviced sections).

**Figure 5: Price-cost ratio for homes in Palmerston North and ratio of average house values to average annual wage**



Source: MBIE/Infometrics

2.26. Significant growth in median section prices has been a major contributor to the long-term decline in housing affordability in Palmerston North. The median land value for houses in the city has risen from 35% of the total capital value of residential properties in September 1994 to 60% by September 2018. In 1994, the average value of the land for a dwelling in the city was \$45,600, but by 2018 the average was \$249,798. Between 1994 and 2018, the average value of land increased by \$204,200 and the average value of improvements increased by \$86,396, resulting in a \$290,596 increase in the average capital value of houses in the city. The land value increase, therefore, accounted for 70% of the increase in the average value of houses in the city.

**Table 9: Valuations for developed residential sections in Palmerston North**

	Average land value	Value of Improvements	Average capital value	Ratio of land value to capital value
1994	\$45,599	\$83,326	\$128,925	35.4%
1997	\$46,376	\$87,861	\$134,237	34.5%
2000	\$46,992	\$93,967	\$140,959	33.3%
2003	\$60,006	\$113,912	\$173,919	34.5%
2006	\$137,396	\$141,185	\$278,581	49.3%
2009	\$137,751	\$150,388	\$288,139	47.8%
2012	\$138,692	\$155,846	\$294,538	47.1%
2015	\$149,944	\$159,315	\$309,259	48.5%
2018	\$249,798	\$169,722	\$419,520	59.5%
<b>2015-2018 change</b>	<b>\$99,854</b>	<b>\$10,407</b>	<b>\$110,261</b>	
	<b>67%</b>	<b>7%</b>	<b>36%</b>	

<sup>1</sup> The example of an 600m section is provided as a typical size section at the edge of many cities. Source: Palmerston North City Council

2.27. Rural-urban land value differentials were calculated by MBIE/MfE for urban areas to compare the values of residential land either side of the boundary between urban and non-urban zones, after removing the impact of differences in amenities, geographic characteristics and infrastructure. If the value of land jumps where the zoning changes, this suggests that various land-use regulations are constraining urban development capacity. The differential estimates how much urban residential land values are being elevated because of these regulatory constraints. The rural-urban land value-differentials can be due to a range of factors, including:

- a. insufficient zoning of land for housing development,
- b. lack of infrastructure which enables zoned land to be developed,
- c. concentrated land ownership,
- d. the cost of adding additional infrastructure at the margins of the urban area; and
- e. land covenants imposed by property developers

**Table 10: Rural-urban land value differentials (residential) for major urban areas**

Urban area	Rural-urban differential (ratio)	Difference (\$/m <sup>2</sup> )	Difference (\$/600m section) <sup>1</sup>	Estimated urban area population (June 2018)
Auckland	3.15	\$345	\$206,722	1,570,100
Queenstown	3.12	\$337	\$202,485	15,900
Hamilton	2.42	\$227	\$136,213	241,200
Wellington	2.30	\$201	\$120,371	418,500
Christchurch	2.23	\$150	\$90,136	404,600
Nelson	2.10	\$153	\$91,671	67,600
Tauranga	2.02	\$232	\$139,135	141,600
Whangarei	2.00	\$80	\$48,064	58,700
Napier	1.66	\$102	\$61,372	63,900
New Plymouth	1.61	\$92	\$55,080	58,300
<b>Palmerston North</b>	<b>1.57</b>	<b>\$73</b>	<b>\$43,902</b>	<b>86,600</b>
Blenheim	1.46	\$61	\$36,303	31,600
Rotorua	1.33	\$46	\$27,441	59,500
Dunedin	1.29	\$38	\$22,505	122,000
Gisborne	1.22	\$24	\$14,352	37,200

<sup>1</sup> The vacant residential land total does not include the Whakarongo residential growth area of 54ha. Source: MBIE

2.28. The differential of \$73/m<sup>2</sup> in Palmerston North is much lower than for urban areas where housing is less affordable, but four areas surveyed by MBIE had smaller differentials (Blenheim, Rotorua, Dunedin and Gisborne). Dunedin is the only urban area with a larger population than Palmerston North that has a smaller rural-urban land value differential (table 10 previous page).

## Housing affordability and affordable housing

2.29. There are a range of options used to measure housing affordability and affordable housing, each with different merits and limitations, including limits to the data that is available at a territorial authority level.

2.30. Measures of housing affordability include:

- a. the cost of housing relative to prevailing incomes (household or personal income),
- b. outgoings (on housing) to income ratios, and
- c. residual income measures

2.31. Affordable housing is defined by Kay Saville-Smith (Director, Centre for Research, Evaluation and Social Assessment) as housing meeting the needs of diverse households with low or moderate incomes at a price allowing other essential living costs and an acceptable standard of living to be met. A typical threshold used to assess this is 25-30% of gross income for rental housing and 30-50% of gross income for mortgaged owner occupiers.

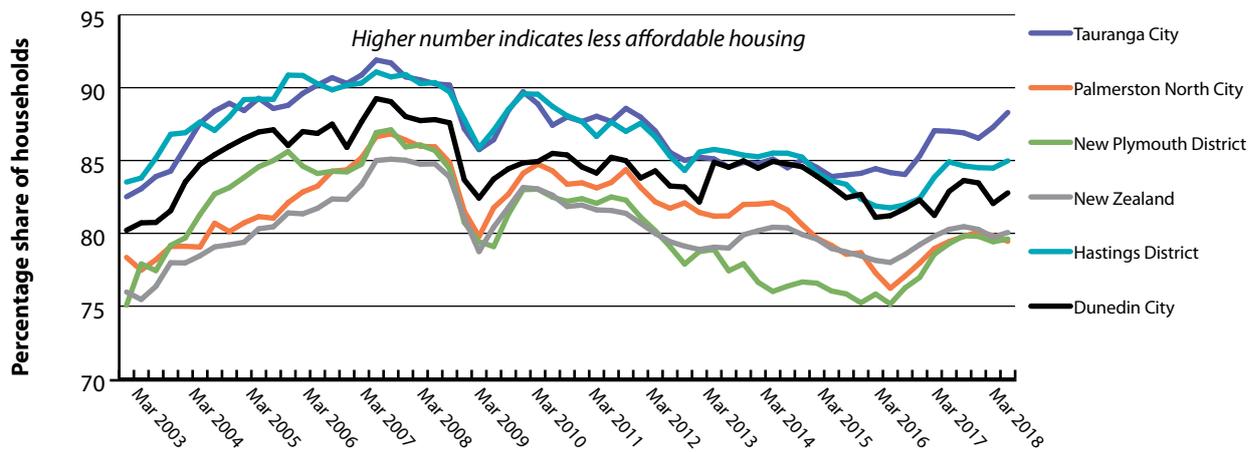
**Table 11: Interest.co.nz home loan affordability estimates**

	Weekly take home pay	House value	Mortgage	Weekly mortgage payment	Mortgage payment as a % of take home pay
<b>Palmerston North</b>					
First home buyers 25-29	\$1,634	\$351,500	\$281,200	\$327.48	20.0%
Young family 30-34	\$1,360	\$412,500	\$244,965	\$285.28	21.0%
Older family 35-39	\$1,800	\$412,500	\$214,719	\$250.06	13.9%
<b>New Zealand</b>					
First home buyers 25-29	\$1,606	\$390,000	\$315,791	\$367.77	22.9%
Young family 30-34	\$1,372	\$562,000	\$391,058	\$455.42	33.2%
Older family 35-39	\$1,853	\$562,000	\$339,922	\$395.87	21.4%
<b>Assumptions</b>					
First home buyers - couple, both working full-time, house value based on lower quartile price					
Young family - couple, one working full-time and one working half-time, receive Working for Families allowance					
Young family - couple, one working full-time and one working half-time, receive Working for Families allowance					
All individuals earn the median rate of pay for their age group					
All individuals earn the median rate of pay for their age group					

Source: Interest.co.nz

2.32. The Interest.co.nz affordability measure in Table 11 shows that housing is more affordable in Palmerston North than the average for New Zealand, with median weekly take home pay for Palmerston North first home buyers slightly higher than the New Zealand median, while young family and older family median incomes were only slightly below the New Zealand median. The Interest.co.nz measure assumes the young family and older family have already purchased homes but are looking to upgrade to larger houses.

**Figure 6: Housing affordability measure – buy measure**



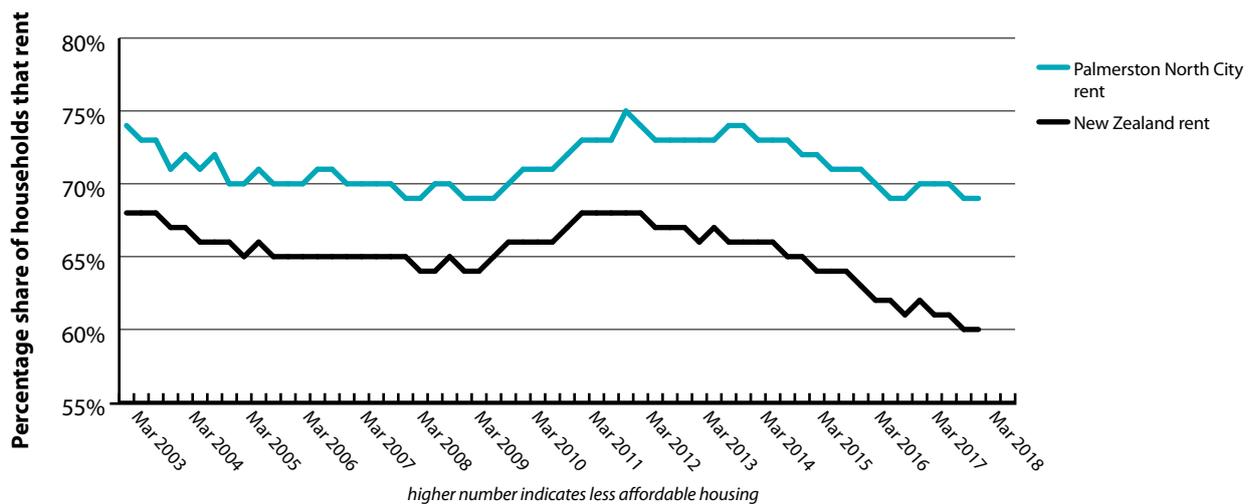
Source: MBIE

2.33. The housing affordability measure (HAM) developed by MBIE is a measure of whether a household that is currently renting can feasibly afford to own a home. The ‘buy’ indicator calculates how much money the first home buying population have left over after paying for their housing costs – if they were to transition from renting to home ownership by purchasing a modest home in the area in which they currently live. The households are then classified as being either above or below the 2013 National Affordability Benchmark based on this ‘residual income’.

2.34. Common measures used to assess housing affordability for renters are:

- a. Outgoings to income ratio - this is measured as a rent to income ratio. The ratio is calculated as the average rent divided by the average income.
- b. Residual income measure (Housing Affordability Measure HAM – rent) - a person’s income less their rental payments.

**Figure 7: Percentage of households that fall below the 2013 national affordability benchmark (rent)**



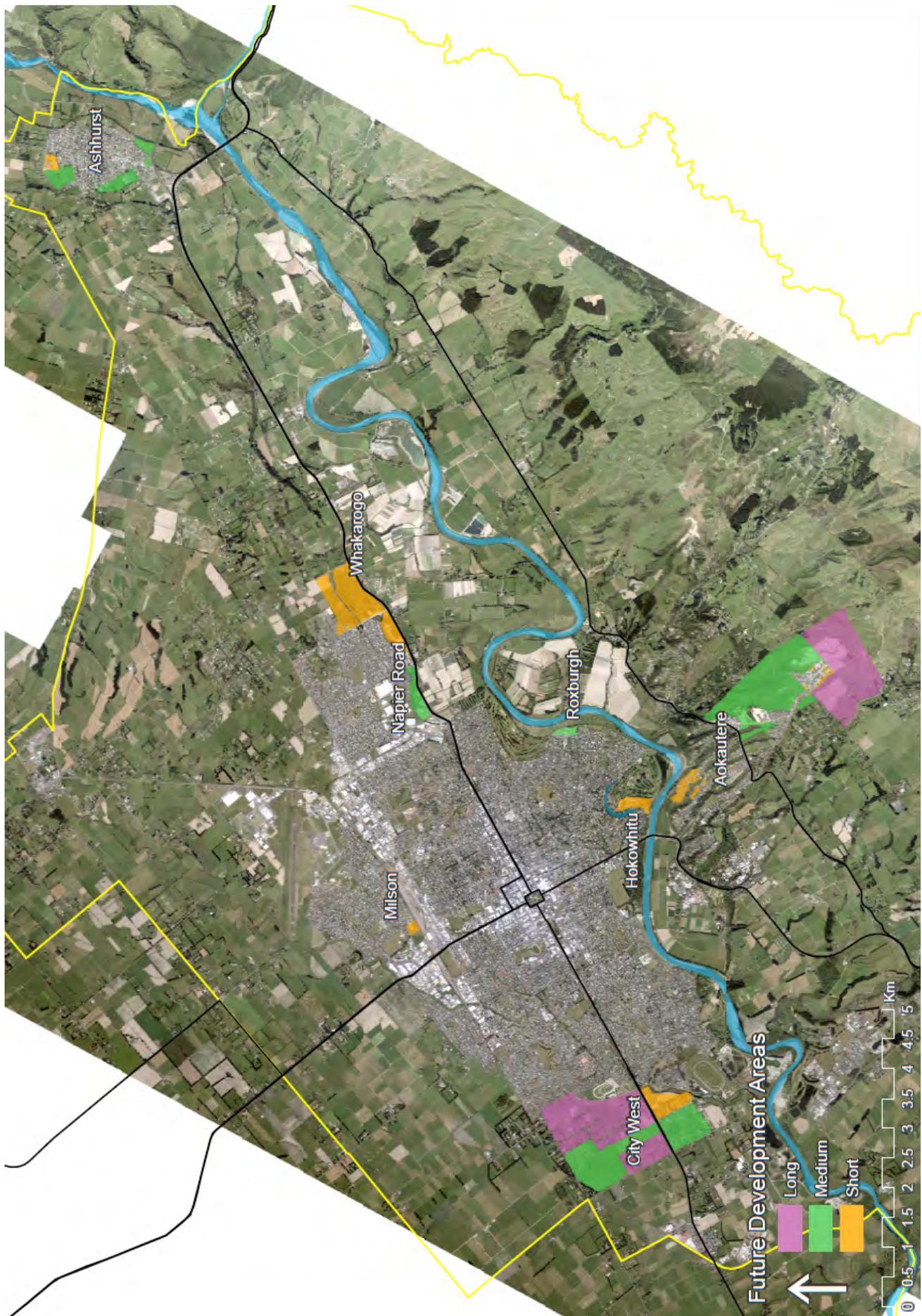
Source: MBIE

2.35. The MBIE residual income measure shows rents are less affordable in Palmerston North than the average for New Zealand, but affordability has improved for Palmerston North renting households since the September 2013 quarter (figure 7).

## Assessing capacity for housing

- 2.36. Council adopted a new strategic direction as part of its 2018 Long Term Plan, including its priorities for residential growth. The City Development Strategy directs:
- a. the need to identify opportunities and reduce barriers to central city living and converting brownfield sites to housing within the existing urban area. For example, transitioning Roxburgh Crescent from industrial to residential.
  - b. The development of Council-owned land at Whakarongo.
  - c. Rezone City West earlier than previously anticipated. The most suitable land for initial release in City West has been identified as the area bound by the Mangaone Stream, Te Wanaka Road and Pioneer highway.
  - d. The need to develop a structure plan for Aokautere and to rezone additional land to take advantage of substantial housing capacity opportunities in this location. Conservative estimates indicate further rezoning could supply capacity for an additional 1,200 new dwellings in Aokautere.
  - e. The need to develop a Future Development Strategy under the National Policy Statement for Urban Development Capacity.
- 2.37. Council also developed a Housing and Future Development Plan (figure 8). This identifies the need to:
- a. initiate development at Whakarongo.
  - b. undertake zoning adjustments to provide additional housing choice in locations such as Napier Road, Flyers Line and Ashhurst.
  - c. ensure there is a continual supply of land for at least 1,900 greenfield residential sections.
  - d. Rezone City West sooner than anticipated.
- 2.38. The Council's 2018-28 10-Year Plan also contains an integrated spatial plan for the City, which clearly demonstrates Council's preferred growth options. Council's district planning functions will be prioritised to enable additional development capacity in these locations.
- 2.39. The recent review of the Residential Zone of the District Plan enabled more opportunities to increase housing density in the city:
- a. Multi-unit housing development
  - b. Minor dwellings
  - c. Minimum lot size reduced to 350m<sup>2</sup>
- 2.40. The housing needs assessment has identified that demand for housing can be accommodated in the short-term. However, in the medium and long-terms there will be a deficit of greenfield land supply to meet projected demand. Long-term greenfield locations may need to be brought online sooner and additional land will need to be identified for long-term housing growth. Alternatively, a greater proportion of the city's future growth could be targeted at infill development or urban redevelopment. A Future Development Strategy will provide an opportunity to comprehensively identify future housing growth options. Figure 7 identifies our current land supply and an estimation of when it will be released for development.

Figure 8: Future development areas



## Feasible development capacity

- 2.41. A third-party was approached to collect information from major developers in the city regarding land development costs. Developers declined to engage in the process, citing commercial sensitivity. In the absence of developer involvement, the default inputs in the MBIE development feasibility tool and Council related inputs, such as fees and charges, land valuation data and lot areas, have been used to estimate feasible development capacity.
- 2.42. Assumptions made in the feasibility assessment:
- a. In Palmerston North the minimum lot size is 350m<sup>2</sup> and the average land value per lot is \$220,000. Lots of 350m<sup>2</sup> are expected to cater towards infill development rather than greenfield growth.
  - b. In Ashhurst the minimum lot size is 500m<sup>2</sup> and the average land value per lot is \$145,000.
  - c. Greenfield growth is expected to have an average lot size of 600m<sup>2</sup> and be valued at \$320,000.
  - d. Typical greenfield housing density is expected to be between 13 and 15 dwellings per hectare.
  - e. Medium-density multi-unit housing in a Palmerston North context is anticipated to be up to 30 dwellings per hectare.
- 2.43. The feasibility assessment for greenfield locations indicates that all but one identified growth location (Roxburgh Crescent) provide feasible development capacity in the short, medium or long terms. Infrastructure has been assessed to be available or planned for in all greenfield growth locations. Infrastructure capacity for water and wastewater is also available to support growth within the existing urban environment. Stormwater management is a more technical issue that increasingly requires specific on-site assessment to determine whether mitigation is required for intensification.
- 2.44. Development constraints in identified growth locations are relatively limited and where they exist can be mitigated e.g. foundation design to mitigate liquefaction risk. Aokautere is the exception, where gully systems and slope stability will need to be carefully considered when a plan change to rezone this area is developed during 2019.
- 2.45. Water and wastewater infrastructure within the existing urban environment have sufficient capacity to cater for intensification. Stormwater management will need to be considered on a case-by-case basis and is increasingly being sought to be managed on-site to minimise impact on reticulated systems. This typically means reducing impervious surfaces and holding water onsite during high rainfall events through water tanks and/or rain gardens. These mitigation options are low-cost solutions that can generally be accommodated through appropriately considered design.
- 2.46. The average Development Contributions charge in the City for residential development is \$7,230, which is low from a national perspective. This is favourable from a feasible development capacity perspective.



### 3. BUSINESS AND INDUSTRIAL DEVELOPMENT CAPACITY

- 3.1. The City Development Strategy sets out the Council's strategic framework for the land use planning and funding of infrastructure to support growth in the city. The Council's Industrial Growth Strategy and Commercial Land Use Strategy inform the market's investment decisions regarding where growth and supporting infrastructure will occur.

#### Industrial Land and Development

- 3.2. The Industrial Growth Strategy sends a clear message to the market regarding priorities and future location for growth to support small to medium size industrial development and large floor-plate activity. The Industrial Growth Strategy prioritises industrial growth:
- a. In the short to medium term: North East Industrial Zone (86ha) and the recently rezoned Extension Area (126ha) for large floor-plate transport, warehousing and logistics activities.
  - b. In the long-term: Longburn is considered a suitable location for wet industry.
  - c. Continued provision for small to medium size industrial activities in the city's core urban Industrial Zone.
  - d. Provision for dairy related industrial activity in the Braeburn Industrial Area (33ha), Longburn.
- 3.3. The context for land supply for small to medium scale industrial development in the City's urban Industrial Zone (figure 9) is as follows:
- a. As of June 2018, there are low levels of vacancy in the Industrial Zone's existing building stock (3.7%). Vacancy is even lower for A and B grade buildings (2% and 3.6% respectively);
  - b. As of June 2018, leasing trends for A and B grade buildings show demand to be strong and supply scarce;
  - c. 2018 property revaluation assessments for Palmerston North show strong growth in Industrial Zone land values (37%) between September 2015 and 2018;
  - d. Excluding the Industrial Zone land in the three villages, available vacant but serviced Industrial Zone land totals approximately 12ha. Much of the Industrial Zone's vacant land is unavailable due to business buying land with a long-term focus for expansion or because land is owned by Council for public facilities;
  - e. The only greenfield (un-serviced) Industrial Zone land in the city is the 15ha Midhurst Street Industrial Area (MIA). The construction of a new road connecting the MIA to Kelvin Grove Road commenced late 2018/2019. Given the extent of the new road investment by the landowner, it is likely subdivision and development of the area is imminent.
  - f. An assessment of land concentration shows two land owners with a 57% combined share of the vacant commercial/industrial land. When looking at industrial land for small to medium scale development the importance of this is amplified;
  - g. KiwiRail's plans to relocate to the North East Industrial Zone (NEIZ) Extension Area<sup>1</sup> means its Industrial Zone Tremaine Avenue freight yard, approximately 26ha of land, is likely to become available for small to medium scale industrial activity. Considering the nature and location of capital investment on the site, approximately 8ha of the site is likely to continue in its industrial use. The remaining 18ha of the site is likely to be available for industrial development in the next five to ten years;
  - h. The 9.6-hectres of vacant but serviced land in the Airport Zone's Environs Precinct is available for industrial development but commercial service activities are being targeted for this land rather than core industrial activities.



- i. The value of non-residential building consents issued in the year ended December 2018 was \$139 million, an increase of 128% from 2017. While the Toyota warehouse extension (10,000m<sup>2</sup> gross floor area (GFA)) accounted for the largest contribution to the growth in consents for factories, there was also an increase of small to medium size consents for a range of industrial and storage buildings.
- j. The largest contributor to employment growth in the city between 2000 and 2018 was in the Industrial Zone, particularly in the Tremaine Ave to Mihaere Drive area. This area contains a high concentration of small to medium scale industrial activities.

**Table 12: Industrial zone vacancy data**

<b>Industrial Vacancy Survey (Airport, Industrial and North East Industrial business zones) (June 2018)</b>				
Zone	Vacancy rate	Vacant	% shares of floor area by zone	
			Part-occupied	Full
Airport	0.0%	0%	0%	100%
Industrial Business	3.7%	3%	4%	92%
North East Industrial	0.0%	0%	0%	100%
<b>Total Industrial</b>	<b>3.3%</b>	<b>2%</b>	<b>2%</b>	<b>97%</b>

Source: Blackmores

- 3.4. In summary, for small to medium scale industrial development, the City has over the short term (0-3 years) 12ha of vacant but serviced industrial land available and 15ha (MIA) of unserviced greenfield land available for industrial development. Over the medium term (3-10 years) another 18-hectares (KiwiRail) of vacant serviced land is likely to be available to the market. However, the land ownership concentration of this 45ha is relatively high. The low level of vacancy in existing building stock indicates demand for industrial development is strong, supply is scarce and land value has grown. For these reasons the need for industrial land for small to medium sized activities is required more urgently (in the short to medium term) than for land for large floor-plate activities (medium to long-term).
- 3.5. The context for land supply for large floor-plate industrial development in the City's North East Industrial Zone (NEIZ) and Extension Area is as follows:
  - a. KiwiRail has signalled its intention to develop 60ha of land in the Extension Area, subject to an assessment of alternatives;
  - b. Post the KiwiRail announcement, approximately 30ha of land in the Extension Area is under contract;
  - c. An 8.3ha block of Extension Area land opposite Foodstuffs on Roberts Line is in the process of being subdivided and developed;
  - d. The 2018/28 Palmerston North City Council Long-term Plan 2018-28 contains \$12.5m of infrastructure programmes to support development of the Extension Area including the construction of a water bore 2018/19;

- e. Major development and construction projects announced for Palmerston North and the Manawātū region amount to \$2.5 - \$3.0 billion of construction activity over the period to 2030. These include the freight ring-road being planned by NZTA and the proposed replacement road for the Manawatu Gorge.
  - f. The emerging commercial value being attached to the inter-modal road, air and rail freight hub developing in the NEIZ and Extension Area;
  - g. The rate of development in the 126-hectare NEIZ Extension Area may accelerate in part due to the land owner in the NEIZ leasing land rather than subdividing. Feedback from local industrial operators seeking to expand their operations is that they prefer to buy land and build fit-for-purpose premises rather than lease either land and or buildings;
  - h. Approximately 51.7ha of NEIZ land is either developed or purchased with the intention to develop and is not available to the market. This means that approximately 34.3ha of land is currently available on a lease basis to the market.
  - i. The strongest rate of employment growth between 2000 and 2018 was in the NEIZ area (an increase from 160 jobs to 1,550 mainly in the wholesale trade and road transport sectors); and
  - j. As of June 2018, there were no vacancies in the NEIZ and leasing trends show demand to be strong and supply scarce.
- 3.6. In summary, the City has 212ha of land zoned for large floor-plate industrial development (figure 10). Of this 212ha:
- In the NEIZ 51.7ha of land is developed or has been purchased with the intention to develop and is not available to the market; and
  - In the Extension Area, 60ha is anticipated to be developed by KiwiRail, 8.3ha is currently being subdivided and developed, and approximately 30ha is under contract.

**Figure 10: Aerial photo of North East Industrial Zone and extension area**



- 3.7. Approximately 150ha of land of the 212ha of land zoned for large floor-plate development has been developed or has been secured with the intention to develop in the short to medium-term (up to 10 years). The ongoing concern is that the emerging land ownership concentration will remain relatively high<sup>2</sup>.
- 3.8. June 2018 data shows a low level of vacancy in existing building stock, demand for industrial large-scale development is strong, supply is scarce and land value has grown. Given the factors discussed above, it is likely that capacity issues for large floor-plate industrial land is likely to arise in the next 10-15 years (medium to long-term) rather than beyond the 20-year horizon (long-term) projected in the Property Economics Palmerston North City Business Land Capacity Assessment (Nov 2018).

## **Business Zone Land and Development**

- 3.9. The compact shape of the City's urban development has discouraged the growth of significant suburban retail and service nodes on the periphery of the City, outside of the local convenience-based services and retail located throughout the City's suburban areas. Retailing and associated commercial activities have, therefore, focused around the historical city centre and gradually expanded from the core to form a naturally evolving hierarchy of business areas radiating from the centre of the City.
- 3.10. Business activity is concentrated within a hierarchy of four distinct Business Zones of the City (figure 11). The hierarchy of Business Zone include:
  - a. The Inner Business Zone (IBZ)
  - b. The Outer Business Zone (OBZ)
  - c. The Fringe Business Zone (FBZ)
  - d. The Local Business Zone (LBZ)
- 3.11. The Commercial Land Use Strategy (the Strategy) is given effect to through the hierarchy of Business Zones in the District Plan. The Strategy seeks to maintain retail and office activity in the core of the city and discourage dispersal of these activities to the industrial fringes of the city. For this reason, non-ancillary retail and office development is a non-complying activity in the Industrial and North East Industrial Zones.
- 3.12. Approximately 24,109m<sup>2</sup> of retail gross floor area, predominately large floor-plate in nature, has located in the Inner, Outer and Fringe Business Zones in the period 2011 to 2018. Importantly, the market is increasingly seeing the commercial value of being centrally located in the city's Inner, Outer and Fringe Business Zones. If the 2008 Plaza expansion of 11,425m<sup>2</sup> is included, then approximately 35,534m<sup>2</sup> of retail gross floor area has been established in these Business Zones over this period.
- 3.13. The centres-based Commercial Land Use Strategy was given effect in the District Plan through Plan Changes 1, 5, 9, 11, and 20 of the Sectional District Plan Review (SDPR) over the period 2011 to 2018. Development on the ground demonstrates the District Plan is achieving the goal of the Strategy, which is to maintain retail and office activity in the core of city and discourage dispersal of these activities to the industrial fringes of the city.
- 3.14. The Capacity Assessment projections for Business Zone land (Retail, Office and Commercial Service) indicates a shortage of land over the next 30-years. Using the Sense Partners growth projections there is a net additional need of 47ha of Business Zone land by 2048. The Assessment considers there is sufficient Business Zone land for the next 3-years period (short-term), a shortage of 9ha in the 3-10-year period (medium-term) and 47ha in the 10-30-year period.



- 3.15. To put this growth projection in context, there is currently 150ha of Business Zone land in the city. The Capacity Assessment projections require a 31% increase in Business Zone land to ensure sufficient capacity to accommodate growth over the next 30-years using the Sense Partners projections.
- 3.16. The Capacity Assessment raised concerns about the veracity of the Sense Partners growth projection and the subsequent land requirement. For both the industrial and business land requirement the Assessment notes the Council can take a more conservative position at this point and monitor growth every 3-years to ensure sufficient capacity is provided.

## Inner business zone (IBZ)

**Table 13: Business zone vacancy data**

<b>Commercial Vacancy Survey (Inner, Outer, Fringe and Local business zones) (June 2018)</b>				
Zone	Vacancy rate	Vacant	% shares of floor area by zone	
			Part-occupied	Full
Fringe Business	6.4%	0%	27%	73%
Inner Business	11.9%	6%	16%	79%
Outer Business	5.8%	5%	4%	91%
Local Business*	4.7%	0%	5%	100%
<b>Total Commercial</b>	<b>9.1%</b>	<b>4%</b>	<b>5%</b>	<b>91%</b>

\*Terrace End only. Source: Blackmores

- 3.17. The IBZ is facing a number of challenges relating to vacancy levels (Table 13) for office space, softer retail growth, building seismic issues and a lack of investment in new building stock. The demand for new fit for purpose office space in the outer business zone (OBZ) is hollowing out office activity in the IBZ and the growth in the retail market sits in the large format sector. For these reasons there does not appear to be a need for additional land to meet the needs of pedestrian orientated comparative retail or office activity in the IBZ in the short to medium term (0-10-years) and potentially over the long-term (10 to 30 years).
- 3.18. District Plan and Other Policy – a further targeted review of Business Zone District Plan land use provisions may be required to further refine and manage the approach to retail and office activity. Further work may also be required to the Council's rating policy for Business Zone land and policy regarding the purpose of Council's lease car parking in the Business Zones.

## Outer business zone (OBZ)

- 3.19. There has been significant investment in large-format retailing (LFR) and office development in the OBZ over the period 2008 to 2018 and there appears to be ongoing supply of land that meets the functional and locational need of these activities. However, the Zone could be characterised as having an inefficient development typology, suboptimal development yield, and significant ongoing development capacity that includes 3.5ha of land rezoned in 2011 that is yet to transition to commercial use.

- 3.20. Considering the issues facing the IBZ, and the capacity that remains for development in the OBZ, it is hard to see there being a need for 9-hectares of additional Business Zone land in the next 3-10-year period (medium-term).
- 3.21. The targeted review of the District Plan will need to consider whether the policy and development settings of the OBZ remain appropriate in the context of maintaining the on-going hierarchy of Business Zones.
- 3.22. OBZ vacancy levels sit at a relatively low 5.8% and are reflective of the strong growth of large format retail, office and commercial service activity in the Zone over the last decade.

## **Fringe business zone (FBZ)**

- 3.23. The 13,829m<sup>2</sup> of development in the Fringe Business Zone (FBZ) since 2008 has solely occurred in the northern part of the FBZ. The rate of development in the FBZ was suppressed by the start of the Global Financial Crises which started at the end of 2007 /early 2008. Development in the Zone has picked up since 2011, however across the Zone development uptake has been subdued.
- 3.24. It is 10-years since the FBZ became operative in the District Plan and the Zone is now due to be reviewed. An assessment of the FBZ planning provisions will be required to ensure it is fit for purpose and its role continues to sit comfortably within the overall hierarchy of business zones in the District Plan. The assessment will need to consider whether the mix of activities provided for in the Zone remain appropriate or whether a wider range of activities are provided for to ensure the natural and physical resources of the Zone are efficiently utilised.
- 3.25. There may be an opportunity to consider promoting increased mixed-use to occur in the FBZ including residential use. There are a number of locations in both the northern and western areas of the FBZ to offer opportunities for residential use in close proximity to the central city and recreational activities such as the Esplanade and the river pathway.
- 3.26. The assessment will also need to consider as part of a targeted review of the Business Zones whether a tightening of regulatory control on large format retailing and associated activities is required in the OBZ or whether the status-quo remains appropriate.
- 3.27. FBZ vacancy levels are record at a relatively low of 6.4% but part-occupied vacancies sit at a high 27%. However, much of this floorspace relates to buildings, or parts of buildings, established under the former Industrial Zoning of the area and may reflect transitioning nature of the Zone. There were no vacancies for buildings established post-2008 under the new FBZ planning provisions.

## **Local business zone (LBZ)**

- 3.28. Vacancy levels in the Zone are generally low and limited to discrete pockets throughout local business areas. Additional land was rezoned as part of the Zone's review in 2013 and local business areas are provided for as greenfield areas develop. On balance the supply of LBZ is considered appropriate at least in the short to medium term (0-10 years) but will continue to be monitored through tri-annual NPS reporting.

## 4. RECOMMENDATIONS

4.1. These are the recommendations made in the full Housing and Business Capacity Assessment report, which was presented to Council on 5 July 2019. It was recommended that Council:

### Housing

- 4.1.1 commences the development of a Future Development Strategy to:
  - a. identify additional opportunities for housing to meet projected growth demands.
  - b. identify detailed infill and redevelopment capacity opportunities within the existing urban area and alternative policy mechanisms to drive intensification.
  - c. identify specific opportunities to utilise Council property for housing.
- 4.1.2 reviews the rationale sitting behind the ratings differential being applied to the first 5ha of residentially zoned land and the remaining balance. The review should consider how the Ratings Policy can best support the release of residential zone for development.
- 4.1.3 promotes the outcomes of the recent residential zone review, which provides a more enabling framework for the development of multi-unit housing and minor dwellings.
- 4.1.4 proceeds with development of the subdivision at Whakarongo as soon as possible to catalyse the development of the wider suburb.
- 4.1.5 collection, management and reporting of Council's resource consent and building consent data is improved to enable more effective monitoring and analysis of housing activity and land supply and take-up.

### Industrial zone land (summary)

- 4.1.6 further develops its Industrial Land Use Strategy for both the large and small development markets as a sub-part of a Future Development Strategy. The Council will need to initiate a land use study to investigate options for the provision of additional land for large and small scale industrial activity for the medium to long term. This work should provide the strategic basis for the RMA and LGA processes required to rezone land and ensure funding of infrastructure is in place within the following timeframes:
  - a. Large Floor Plate Industrial (NEIZ and Extension Area) - the required quantum of land rezoned within the next 10 to 15 years (medium to long-term).
  - b. Small to Medium Scale Industrial Development (Industrial Zone) – the required quantum of land rezoned within the next 5 to 10 years (short to medium-term).



## Business zone land (summary)

- 4.1.7 continues to monitor through tri-annual NPS reporting the need for additional Inner, Outer, Fringe or Local Business Zone land.
- 4.1.8 undertakes a targeted review of the District Plan that investigates the options to further refine the approach to managing retail and office activities across the Inner, Outer and Fringe Business Zones.
- 4.1.9 reviews the Fringe Business Zone so that it is fit for purpose and its role continues to sit comfortably within the overall hierarchy of Business Zones in the District Plan. The review will need to consider whether the mix of activities provided for in the Zone remains appropriate or whether a wider range of activities are provided for in the Zone.
- 4.1.10 reviews the rationale sitting behind the ratings differential being applied to Inner and Outer Business Zone property by its Ratings Policy. The review should consider how the Policy can best support the social and commercial outcomes being sought for the Inner and Outer Business Zones.
- 4.1.11 reviews the purpose of its Leased Parking Policy so that it considers how best the Policy can best support the social and commercial outcomes being sought for the Inner Business Zone.
- 4.1.12 collection, management and reporting of Council's resource consent and building consent data is improved to enable more effective monitoring and analysis of commercial building activity and land supply and take-up.

## City Development Strategy and Housing and Future Development Plan

- 4.1.13 prioritises the existing directions and actions in the City Development Strategy and Housing and Future Development Plan.





**Te Kaunihera o Papaioea | Palmerston North City Council**

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