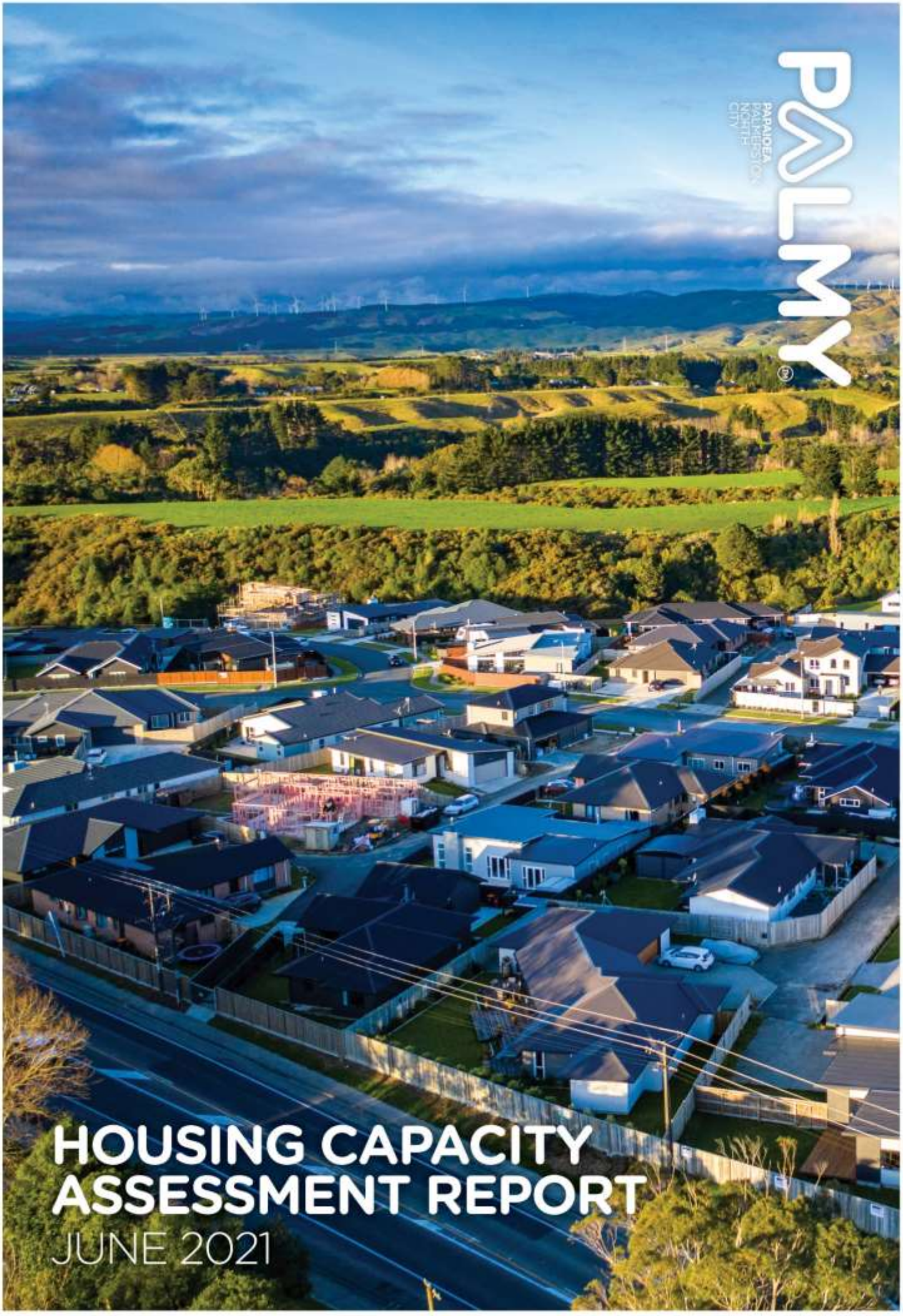


HOUSING CAPACITY ASSESSMENT REPORT

JUNE 2021

Executive Summary

Palmerston North is experiencing a surge in population growth, placing pressures on the city's housing stock and resulting in strong growth in average land value and house prices. The National Policy Statement for Urban Development 2020 (NPSUD) requires territorial authorities to report on their housing supply, demand and feasible capacity. The NPSUD aims to ensure that New Zealand's urban areas are well functioning and meet the needs of our diverse communities.

This report provides a comprehensive analysis of the demand for, and supply of housing and future housing targets for Palmerston North. In the year ended December 2020, a net of 411 additional dwellings were consented, up from 210 in 2016. Building consents data for the past three years indicates a strong increase in supply of infill housing in the city, with it becoming the main housing typology, contributing 57% of the increase in housing supply. Greenfield has now become the city's secondary typology at 34%, with its share reducing by 18% from 2016. Rural/residential development declined from 15% in 2016 to 10% in 2020.

The majority (69%) of new builds are three- or four-bedroom houses. However, there is a growing demand for one- or two-bedroom homes, as the social housing register[1] demonstrates. In December 2020 85% of the 685 applicants on the social housing register in Palmerston North required a one- or two-bedroom home. Household projections for the city shows that the average household size is expected to decline. This suggests that the larger houses being constructed currently will not best meet future demands of the City. Smaller houses and intensification will need to make up a larger proportion of newer houses being built to meet future housing demand.

Quotable Value (QV) expects that growth in house and land prices will continue in Palmerston North. Property value estimates from QV showed a 34.3% increase in house values in the year to May 2021. However, the city average house value remains $200,000 below the national average.

As of June 2021, there were:

- 1,320 lots available for greenfield growth.
- 1,417 lots with potential for infill development (without the need to move or remove an existing home).
- 2000+ ha of rural land available for subdivision.

Long-term household projections from Infometrics suggest a need for 12,970[2] extra dwellings over the next 30 years, to cater for a population of 121,664 by 2051.

The NPSUD requires the Council to enable housing construction and provide infrastructure to support its development in the short, medium and long-terms. The estimate for total housing demand includes an additional competitiveness margin. There is sufficient supply to meet demand over the next three years (short-term). However, more land will be required to be rezoned to accommodate greenfield

[1] The Social Housing Register does not include the PNCC social housing wait list.
[2] Includes a competitive margin of 20% of short/medium term projected demand and 15% for long-term projected demand

development for the medium and long-terms. Significant District Plan changes are currently under development to address greenfield supply. This includes planning for Aokautere, Kākātangiata and Ashhurst. These plan changes are intended to provide additional capacity for approximately 8,700 dwellings.

A residential zone review is in its initial research and investigation stage. This plan change will seek to give effect to the intensification requirements of the NPSUD. Once these plan changes are completed, more than 30 years of housing need will be catered for, particularly if housing preferences continue to follow the recent trend of favouring infill/intensification.

There are signs that population growth will be higher than projected by Infometrics and the average household size is expected to decrease, which may suggest a need for more housing than projected. This will need to be confirmed through future updates to the projections, and addressed through future housing needs assessments, District Plan changes and long-term plans.

There is high demand for housing over the short term, influenced by past years of undersupply. There is further pressure from a surge in the rate of population and economic growth in the city, which is the highest rate of growth since the 1970s.

This report recommends the following actions to address housing supply;

- Rezone additional greenfield capacity at Aokautere, Ashhurst and Kākātangiata.
- Promote multi-unit development and minor dwellings.
- Investigate lowering the minimum lot size from 350m^2 in the residential zone.
- Investigate lowering the minimum lot size from 500m^2 in Ashhurst.
- Partner with the development community to encourage intensification.
- Repurpose underutilised Council land for housing.
- Enable intensification in more locations and investigate requiring higher density outcomes for redevelopment in certain locations, through future changes to the District Plan.

The NPSUD requires the Council to set housing bottom lines (growth targets) which must be inserted into the District Plan and Regional Policy Statements. These are:

Short-term

- Infill 55% (including multi-unit and minor dwellings)
- Greenfield 40%
- Rural/rural-residential 5%

Medium-term

- Infill 45% (including multi-unit and minor dwellings)
- Greenfield 50%
- Rural/rural-residential 5%

Long-term

- Infill 40% (including multi-unit and minor dwellings)

Infill share includes retirement villages and apartments

- Greenfield 55%
- Rural/rural-residential 5%

	Short-term July 2021 - June 2024 *Target includes an additional margin of 20%*	**Medium-term** July 2024 - June 2031 *Target includes an additional margin of 20%*	**Long-term** July 2031 - June 2051 *Target includes an additional margin of 15%*	**30-year total** July 2021 - June 2051
Total household growth	**Minimum growth target**			
	1,523	**3,523**	**7,925**	**12,971**
	Projected actual demand			
	1,269	**2,936**	**6,891**	**11,096**
Projected residential preference - based on minimum growth target				
Greenfield	609	1,762	4,359	6,729
Infill[1]	838	1,585	3,170	5,593
Rural/ rural-residential	76	176	396	649

[1]Infill share includes retirement villages and apartments

These targets have been prepared to comply with the NPSUD and reflect the likely result if the Council delivers the proposed additional greenfield areas. Further policy support to assist with increasing housing intensification may result in changes to these percentages in the future.

The Council's objective is to attempt to maximize housing intensification through:

a) Ongoing monitoring and review of residential zone planning provisions as they apply to apartments, infill subdivision, medium-density and minor dwellings.

b) Master planning of new greenfield areas to deliver a range of housing typologies and increasing yield.

c) Working with developers to co-create new forms of housing through the Delivering Change Programme.

d) Demonstrate leadership by repurposing Council land to deliver housing topologies not typically provided by the market.

e) Designing an ultimate urban edge into new urban greenfield developments to start to signal housing development will not continue to sprawl into adjacent rural areas.

f) Monitoring resource management reform and advocating for a planning system that will better support urban intensification.

Alternative methods that could be explored through the Future Development Strategy, the Low Carbon Roadmap and future District Plan changes include:

a) Regulating for housing density outcomes.

b) Putting in place urban limits.

Infill share includes retirement villages and apartments

c) Significant repurposing of Council owned land for housing, such as further development of underutilised reserves and partial relocation of sports fields to the urban edge.

Infill share includes retirement villages and apartments

Table of Contents

1 Introduction 8

2 NPS – UD 2020 10

2.1 Overview 10

2.2 Bottom lines and targets under NPS 10

2.3 Engagement 11

2.3.1 Māori 11

2.3.2 Development community and infrastructure providers 12

3 Demand 14

3.1 Overview 14

3.2 Historical trends 15

3.3 Social housing register 15

3.4 New dwelling consents 16

3.4.1 Introduction 16

3.4.2 Infill 17

3.4.3 Rural 18

3.4.4 Greenfield 18

3.5 Population trends and assessing future housing demand 20

3.6 Future household growth trends 24

3.7 Challenges with assessing future housing demand 26

4 Land supply 28

4.1 Overview 28

4.2 Methodology 29

4.2.1 Geographic information system (GIS) 29

4.2.2 Limitations 29

4.3 Greenfield supply 30

4.4 Infill supply 30

4.5 Rural residential supply 31

4.6 Future growth areas 31

4.6.1 Plan Change F: Ashhurst 32

4.6.2 Plan Change G: Aokautere 32

4.6.3 Hokowhitu Lagoon residential area 33

4.6.4 Plan Change H: Kākātangiata 34

4.6.5 Plan Change C: Kikiwhenua 35

4.6.6 Plan Change B: Napier road extension area 35

Infill share includes retirement villages and apartments

4.6.7 Plan Change 4A: Napier Road (Marriott block) 36
4.6.8 Plan Change E: Roxburgh Crescent 36
4.6.9 Whakarongo 37
4.6.10 Whiskey Creek 37
4.6.11 Council land for housing 38
5 Capacity 39
5.1 Overview 39
5.1.1 Strategic direction 39
5.2 Future housing capacity 40
5.3 Future housing target 41
5.4 Social housing capacity 43
6 Feasibility Assessment 44
6.1 Overview 44
6.2 District Plan feasibility 44
6.3 Development feasibility 44
6.3.1 Introduction 44
6.3.2 Greenfield 45
6.3.3 Infill development constraints 46
6.3.4 Rural/Residential 47
6.4 Infrastructure and development contributions 47
6.5 MBIE Feasible Development Tool 48
7 Housing Analysis 50
7.1 Constraints 50
7.1.1 Construction and development industry 50
7.1.2 Land values and affordability 50
7.2 Opportunities to support housing affordability 51
7.2.1 Intensification 51
7.2.2 Delivering Change Programme 52
7.3 Collaboration with neighbouring councils 54
7.4 Assumptions 54
8 Conclusions 56
9 Housing Recommendations 57
9.1 Rezoning 57
9.2 Promote minor dwellings 57

Infill share includes retirement villages and apartments

9.3 Undertake council owned housing development and investigate opportunities to repurpose reserves for housing 57
9.4 Develop partnerships 57
9.5 Promote and enable intensification in more locations 58
9.6 Restrict land banking 58

Infill share includes retirement villages and apartments

1 Introduction

This Housing Capacity Assessment provides an update to the 2019 Housing and Business Development Capacity Assessment for Palmerston North. This report focuses exclusively on housing, as required by the NPSUD, and is primarily based on analysis of housing data to December 2020.

Palmerston North is a tier 2 city under the National Policy Statement for Urban Development 2020. Tier 2 councils are required to prepare a Housing Capacity Assessment (HCA) update by 31 July 2021 to inform the Council's Long-Term Plan development. It is also intended to inform future land-use planning and infrastructure provision to support growth for housing in the short (0-3 years), medium (4-10 years) and long term (10 – 30 years). This report fulfils this requirement.

The key findings in this report include:

- Infill housing development has increased over the past three years and is now the main housing typology for new houses built in the City. Infill development is spread across the city and is no longer occurring mostly in Hokowhitu and Roslyn, as it was three years leading up to 2019. This may be due to increases in land value throughout the city, making it more attractive for landowners to realise the value of their property through subdivision.
- There were 685 families currently on the social housing register in Palmerston North, as at December 2020. Kainga Ora aims to build an additional 300 homes by 2024, meaning there is a shortage of social housing over the short-term, unless other social housing providers meet these needs. It also suggests that there is a lack of affordable rental housing supply, which is driving demand for social housing.
- Long-term population and household projections suggest there is demand for 11,095 additional homes by 2051 and the target set by the Council is to provide 12,970 homes (including additional competitive margins). This is based on the average Palmerston North household size of 2.6 persons, which is expected to decline over the next 30 years.
- There are 1,320 lots currently available for greenfield development (subject to consenting).
- There are 1,417 lots readily available for infill development (subject to consenting). This figure reflects infill opportunities that do not require the removal or movement of an existing home to accommodate an additional dwelling. Significantly more capacity (over 11,000 units) is available if older housing stock is removed and sites are subdivided to their maximum potential.
- There are over 2,000 hectares of rural land available for rural-residential subdivision (subject to consenting).
- Demand for housing has accelerated due to recent strong economic growth and population growth.
- Short-term growth demands can be accommodated, but District Plan changes and infrastructure investment will need to be advanced to enable additional capacity to meet future medium and long-term growth needs.

Infill share includes retirement villages and apartments

These plan changes are currently under development and expected to be notified in late 2021. The 2021-31 Long Term Plan includes programmes and budgets to develop the necessary infrastructure to support projected growth.

Palmerston North had an estimated population of 90,400 people as at 30 June 2020, and is expected to grow by 450[3]-1,350[4] people each year, over the next 30 years. To accommodate this growth, more housing capacity must be provided.

[3] Low growth projection

[4] High growth projection

Infill share includes retirement villages and apartments

2 NPS – UD 2020

2.1 Overview

This Housing Capacity Assessment differs to the 2019 Housing and Business Needs Assessment, as a result of the 2020 NPSUD replacing the 2016 NPSUDC. This section provides an overview of the changes that are relevant to this HCA report.

Palmerston North is a tier-2 city under the NPSUD. The NPSUD places additional requirements on the City than applied under the NPSUDC. Requirements in the NPS include:

- Bottom lines for development capacity to meet expected housing demand needs, including:
    - competitive margins
    - provision of choice for different members of the community, and
    - inclusion of these targets in the District Plan.
- Higher levels of engagement and decision making, including, taking into account the principles of the Treaty of Waitangi.
- Councils must notify the Minister for the Environment if they have insufficient development capacity for the short, medium and long term.
- Setting objectives for council to contribute to housing affordability through planning decisions that support competitive land and housing development markets.
- Providing for intensification of housing by building at densities that reflect demand for use, accessibility from planned and future active transport linkages.
- Local authorities must be responsive to unanticipated plan changes.

2.2 Bottom lines and targets under NPS

Bottom lines are a new requirement under the NPSUD. A housing bottom line is the amount of development capacity that is sufficient to meet demand, including additional competitive margins. As a tier-2 council, the Council must produce bottom lines for housing for the short, medium and long-term into district plans and regional policy statements. Any other Resource Management Act (RMA) planning documents must be changed to give effect to these bottom lines.

What needs to be included in District Plans:

- Estimates for demand for different housing typologies that are categorised by type and location – based on the past 3 years.
- Development capacity of future growth areas and the number of housing lots to meet demand for infill, greenfield and rural housing.
- Growth targets with competitive margins of 20% above the medium projection for the short/medium term and 15% above in the long term.

Targets that have been developed from the findings of this report are in section 5.3.

2.3 Engagement

There are some new objectives and policies regarding engagement in the 2020 NPSUD. In the 2016 NPSUDC, engagement was required with iwi, property developers and infrastructure providers. Strong encouragenment for working together with those within urban area boundaries was encouraged, especially with infrastructure providers. In the NPSUD, a higher level of engagement is required, as illustrated in Figure 1 below:

Figure 1: New engagement guidelines.

Engagement in urban planning	Section	Where	Status
Taking into account the principles of the Treaty of Waitangi (te Tiriti o Waitangi)			
Sets an objective for planning decisions and FDSs to take into account the principles of the Treaty of Waitangi.	Objective 5	all	new
Sets minimum requirements for local authorities when taking into account the principles of the Treaty of Waitangi in relation to urban environments.	Policy 9	all	new
Integrated management			
Sets an objective for planning decisions to be integrated, strategic and responsive.	Objective 6	all	changed
Encourages councils to work together with infrastructure providers and the development sector.	Policy 10	all	changed

Source: MfE (2020[5]).

2.3.1 Māori

The NPSUD has specific reference to the Treaty of Waitangi, with the intention of meeting the needs of Māori living in urban environments. Under objective 5 and policy 9 of the NPSUD, local authorities must ensure iwi/Māori are engaged in processes to prepare plans and strategies that shape urban environments. When preparing the 2021 HCA, the Council was required to take into account values and aspirations of hapu and iwi and provide hapu and iwi with involvement in decision making that is consistent with iwi participation legislation (RMA 1991, Local Government Act (LGA) 2002 and Te Ture Whenua Māori Act 1993). This includes recognising the strong tradition associations iwi/Māori have with urban environments in NZ. Early consultation with hapu and iwi should enable a variety of homes to be built for Māori to express their cultural traditions.

At a regular bi-monthly meeting with Rangitāne o Manawatū, Council officers advised iwi of the requirement for Council to engage with them on the matters detailed in the NPSUD. As a result, Council officers were invited to attend a meeting with Ora Konnect on the 19 May 2020. This meeting included representatives from Māori housing providers, community advisors, Kainga Ora and health providers. Council officers presented latest housing growth trends, NPSUD requirements and asked representatives the following question "What aspirations do you have for Māori housing, to ensure Māori can express their cultural traditions?". The key issues brought up were a lack of affordability and housing security for Māori as long-term housing options were difficult to obtain. Rangitāne o Manawatū also advised that they do not

[5] Introductory Guide to the National Policy Statement on Urban Development 2020.pdf (mfe.govt.nz)

have enough land or resources to develop housing but can partner with organisations who can.

Members at the hui suggested ways these issues could be addressed, including:

- supporting Māori housing security through long term housing options.
- working together and forming a partnership between iwi and council for housing.
- Addressing affordable housing in a regulatory manner, for example, through objectives in the District Plan.
- incorporating iwi developers into new growth areas and give them updates of plan changes coming up.
- incorporating desires of iwi into growth areas through Papakainga opportunities – communal home ownership model.

Rangitāne o Manawatū also expressed an interest in minor dwellings as an affordable housing option for their whanau and will investigate further. The Council is confident the iwi engagement requirement has been met under the NPSUD and there is an ongoing partnership between the Council and Rangitāne o Manawatū.

Rangitāne o Manawatū was also consulted in relation to the preparation of the draft 2021 Long-Term Plan, which included updated strategic direction that relates to housing.

2.3.2 Development community and infrastructure providers

The NPSUD requires that the Council works together with the development sector and infrastructure providers to be responsive, strategic and integrated. Policy 10 under the NPSUD outlines the new requirements for all local authorities. This integrated management requirement ensures different groups in the community are catered for, such as how well current and future demand will meet the needs of the elderly, renters, homeowners, and low-income residents. This includes working with the development community – developers, social/community housing providers – to monitor the housing market and to ensure supply is meeting demand.

To support the well-functioning urban environments requirement under the NPSUD, closer work with the regional council can achieve this by ensuring transport corridors are integrated with new housing developments. Other infrastructure providers that can be engaged with are; telecommunications, power, water and roading providers.

Figure 2: Policy 10 2020 NPSUD.

Policy 10: Tier 1, 2, and 3 local authorities:

(a) that share jurisdiction over urban environments work together when implementing this National Policy Statement; and

(b) engage with providers of development infrastructure and additional infrastructure to achieve integrated land use and infrastructure planning; and

(c) engage with the development sector to identify significant opportunities for urban development.

Source: MfE (2020)

Infill share includes retirement villages and apartments

Developers are regularly engaged with throughout plan changes, policy development and resource consenting. A developer forum was held on the 29 April 2021, as a part of Long-Term Plan (LTP) consultation. This meeting was held with the development sector including the design community (architects), surveyors, construction industry and housing developers. Council staff members were there to provide information on urban design, future growth strategies, development contributions and the LTP. The development sector expressed their concerns regarding constraints in the district plan, especially around urban design, stating it creates time delays. Other concerns were regarding stormwater and using onsite detention, which has resulted in poor amenity outcomes.

As a part of the new engagement requirements under the NPSUD, infrastructure providers were contacted on 18 May 2021 asking them to advise of any issues the Council needs to be made aware of, especially in the context of Council plan changes outlined in section 4.6. Infrastructure providers contacted included NZTA, PowerCo and Chorus. No feedback was provided during this engagement process. Any feedback received by infrastructure providers in the future will be taken into consideration and actions will be taken where necessary.

The Council is confident that engagement requirements under the NPSUD have been met.

Infill share includes retirement villages and apartments

3 Demand

3.1 Overview

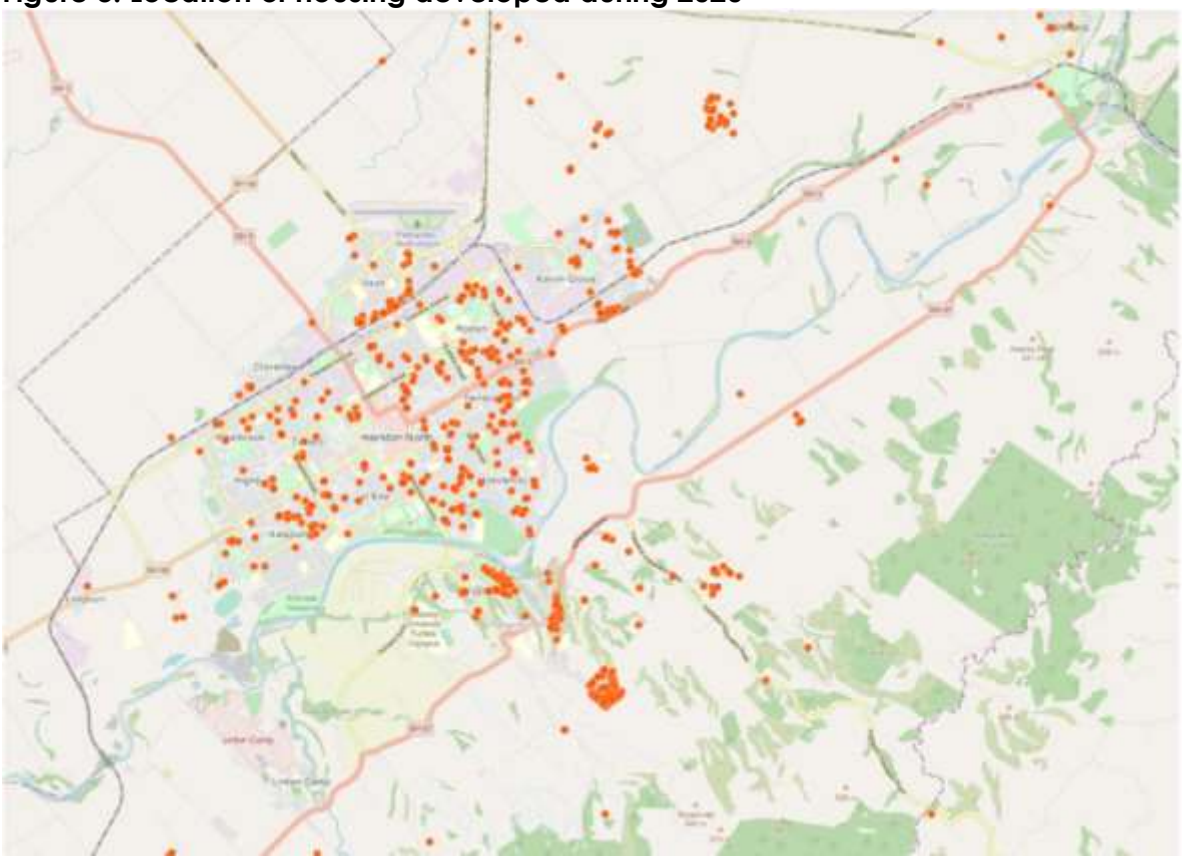
The most common type of housing in Palmerston North is detached single storey housing, consisting of 3 to 4 bedrooms. The rate of population growth has increased and there has been an increase in net residential buildings consented, from 209 in 2016 to 411 in 2020. This growth is projected to continue in the long term.

The number of consents for the construction of new houses in Palmerston North has been low compared with its share of New Zealand's population, but that gap is closing. A key factor over the period from 1996 to 2013 which contributed to the weak increase in housing supply in Palmerston North was population decline in parts of the city's wider labour market catchment. This contributed to a widening gap in house prices between the city and adjacent areas, resulting in growth in the proportion of the city's workforce that lived in other territorial authorities. Population growth in the wider region accelerated from 2013, resulting in much higher housing demand than was experienced between 1996 and 2013 and strong growth in rents and house prices across the region.

Table 1: Summary of housing types: net increase in housing stock 2018 - 2020

	2018	2019	2020	Average
Greenfield	36%	39%	29%	**34%**
Infill (Combined)	57%	54%	60%	**57%**
Rural	7%	7%	10%	**8%**

Figure 3: Location of housing developed during 2020



3.2 Historical trends

Table 2 below provides an overview of past housing growth by housing type, which has fluctuated over time. Previously, greenfield growth accounted for the highest proportion of new houses consented, and the infill share has been lower. The decline in houses consented in 2008 onwards was due to the effects the 2008 financial crisis on the housing market.

Table 2: New dwelling units by development type (1999 - 2020)

Year Ended December	Total building consents issued	Estimated net dwelling change	Housing development type (number and % share)							
			Greenfield		Apartments, retirement village, multi-unit, minor		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%
Average 1999-2020	**302**	**264**	**123**	**47%**	**28**	**10%**	**83**	**31%**	**31**	**12%**

Note: the difference between total building consents authorised and net dwelling stock change includes the replacement of existing dwellings and movement of new relocatable houses to other areas. Dwellings approved prior to July 2012 in the boundary change area with Manawatū District are not included in the dwelling counts.

Source: Palmerston North City Council

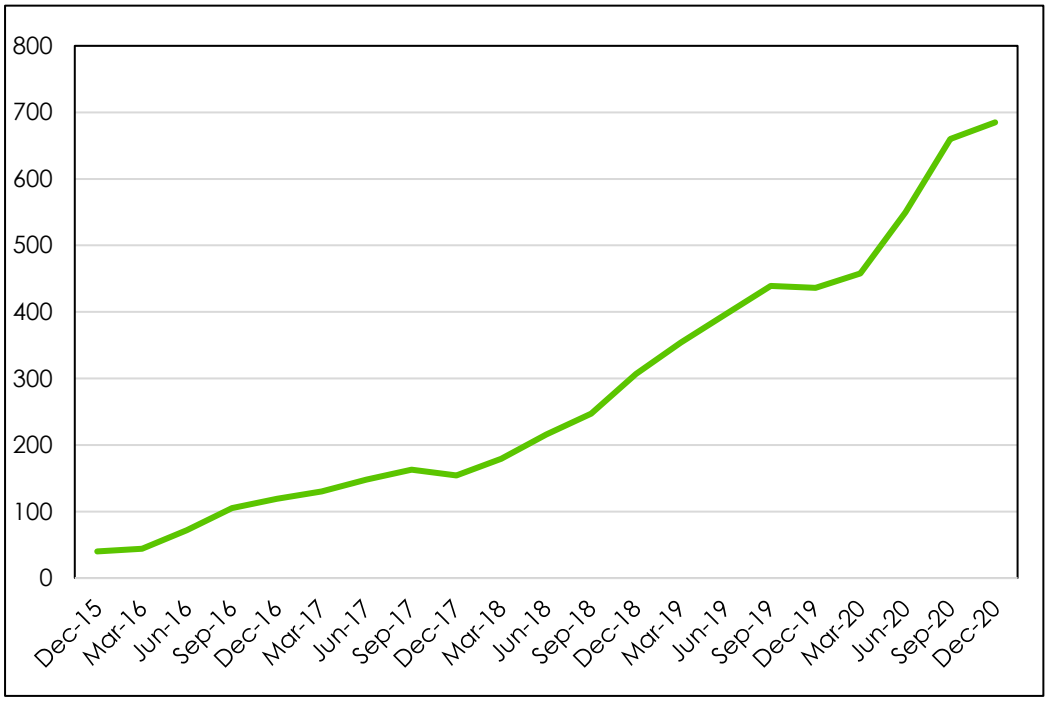
3.3 Social housing register

The social housing register includes those who are eligible for social housing and need to be matched to a suitable property. There are two categories that people are placed in: Priority A (persistent housing need to be addressed immediately) and Priority B (significant persistent housing need). Figure 4 shows an increase in those

Infill share includes retirement villages and apartments

placed on the social housing register in Palmerston North. There were 685 applicants (households) on the social housing register for Palmerston North in December 2020 (660 Priority A and 25 Priority B), with 85% requiring a one to two-bedroom home. The number of people on the register has more than doubled since 2019, which is consistent with national growth. There were 22,251 applicants on the national social housing register. The City Council social housing wait list is not included in these figures.

Figure 4: Social housing register – Palmerston North.



Source: MSD

3.4 New dwelling consents

3.4.1 Introduction

There were 524 new dwelling consents issued in the year to December 2020, resulting in a net increase of 411 dwellings. That compares with 444 dwellings consents issued in 2019, resulting in a net increase of 335 dwellings in 2019. Multi-unit and minor dwellings consents have contributed to the increase in infill housing stock over 2019 and 2020 (see table 3).

Table 3: Housing type breakdown Jan 2019 to Dec 2020

	Jan 2019 to Dec 2019		Jan 2020 to Dec 2020	
	Number of dwellings	%	Number of dwellings	%
Greenfield	130	39%	121	29%
Rural	24	7%	43	10%
Infill – stand-alone	94	28%	121	29%
Infill – multi-unit, retirement village, apartment	85	30%	118	29%
Infill – minor dwelling	2	1%	8	2%
Total	**335**		**411**	

Source: Palmerston North City Council

Infill share includes retirement villages and apartments

3.4.2 Infill

The infill housing category includes multi-unit development, retirement villages, apartments, minor dwellings, and stand-alone houses on subdivided properties. Infill dwelling supply has been steadily increasing over the past years.

Infill housing is expected to increase as increasing land prices make subdivision more economically attractive. Infill supply has predominately occurred in Hokowhitu and Roslyn. Based on the GIS mapping of consents data, the recent spread of infill development is relatively evenly spread across the city (see Figure 3). It also reflects a potential lack of greenfield alternatives, which therefore channels the increasing demand for housing to options that are more readily available. If this trend continues at current rates, the plan enabled supply for infill development will be consumed within the next five years.

However, the readily available infill capacity figure is not necessarily a useful measure to rely on to understand capacity. Many infill development opportunities are being created through the removal of existing homes to enable multiple dwellings to be built. Therefore, the infill capacity figure of 1,417 is only an indication of capacity that can be provided for if the existing home was retained and the site was subdivided to enable an additional dwelling to be constructed.

It is likely that significantly more opportunities for infill development are available. As the Palmerston North building stock ages and land values continue to increase, infill development through the removal of existing houses is likely to become more common and provide a greater share of infill development capacity. This assumption is supported by the capital to land value assessment in section 6.5 which shows that over 60% of the existing residential zone could be redeveloped to increase supply and return a positive economic return.

Consents data and feedback from the development sector indicates that smaller (less than 350m^2) subdivision opportunities are being actively considered and applied for. This suggests that a lower threshold for the minimum lot size for residential development could be considered in a future District Plan update. Removing minimum lot sizes could also be considered, provided good design outcomes could be achieved. These options, and potentially others, will need to be explored as part of an upcoming housing plan change. If further intensification is necessary to meet growth demands, it will be necessary to introduce planning controls that ensure intensive development is enabled, but that design outcomes make a positive contribution to the urban environment. This will need to be considered alongside implementing the NPSUD.

3.4.2.1 Multi-unit

Multi-unit is a type of infill development consisting of 3 or more dwellings on one site that are a medium to high density. Multi-unit development increased in 2020, increasing the 1 to 2-bedroom dwelling stock in the city. Major multi-unit developments tend to be done by retirement and social/community housing providers. Private smaller scale multi-unit developments, consisting of 3 or more units on one site are less common. Recent multi-unit retirement development includes the construction of the BUPA retirement village on Napier Road.

Kainga Ora is becoming the major multi-unit developer in Palmerston North. Its general approach is to replace one dwelling with at least three new dwellings. Kainga Ora plans to develop in excess of 300 social houses in Palmerston North in the next four

Infill share includes retirement villages and apartments

years. This will be accommodated primarily through multi-unit, rather than standalone houses. The Council has taken a similar approach as a social housing provider, by developing stage 2 of Papaioea Place pensioner housing, where 28 new one-bedroom units replaced 16 units.

3.4.2.2 Minor dwellings

Minor dwellings are defined as any self-contained unit (which includes a kitchen and bathroom) with a floor area no larger than 80m^2 on the same site and the same ownership as the principle unit to provide accommodation. Minor dwellings do not have a separate land title. These are separate from sleep outs, which are not counted as dwellings.

3.4.3 Rural

Rural areas are zoned as rural or rural with a residential overlay in District Plan (see Figure 5). New dwellings in the rural zone increased in 2020, but development rates have fluctuated. This is due to strong rural-residential growth in the near-by Manawatu District and a lack of large-scale rural-residential areas for ready market uptake. Such areas have been limited to Kingsdale Park Drive and Hartwell Drive. Both locations are expected to be fully developed in the short-term. While there is capacity for significant rural-residential development within Palmerston North (2000ha), subdivision consent applications for rural-residential development have not been forthcoming. This will continue to be monitored.

Figure 5: Kingsdale Park – Rural/Residential subdivision

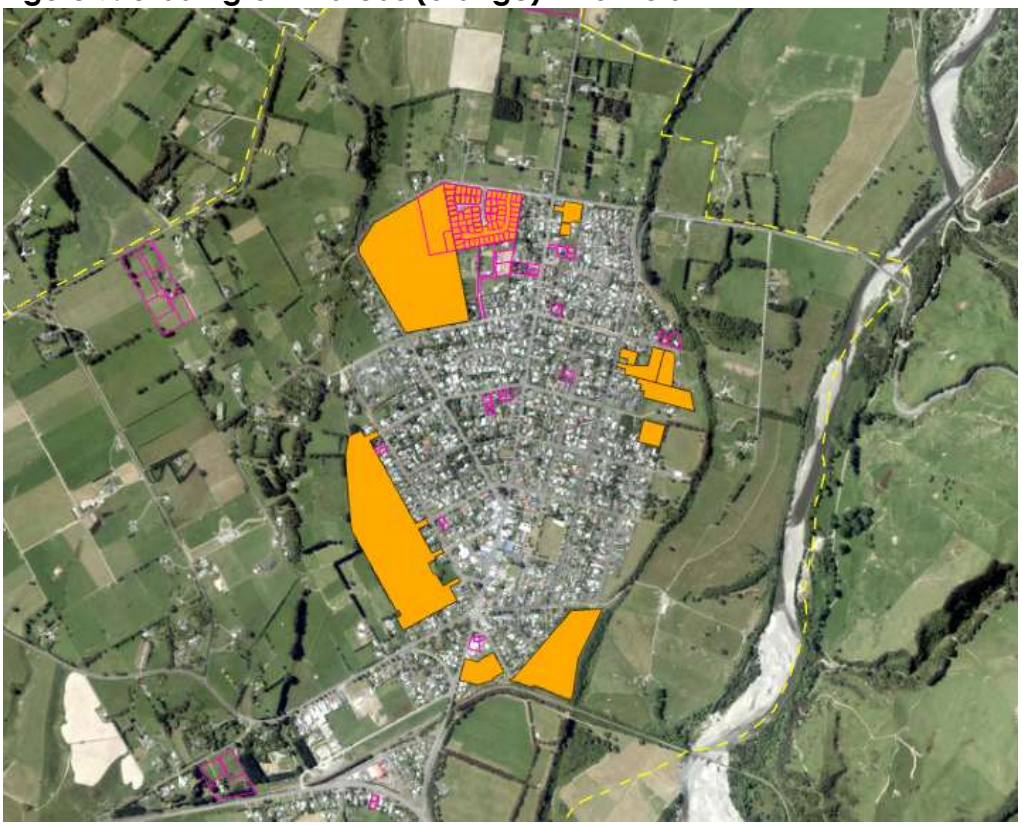
3.4.4 Greenfield

Greenfield development contributes to the immediate outward growth of the city. This predominantly occurs in Kelvin Grove (Freedom Drive), Aokautere (Poutoa area unit), Ashhurst, and Whakarongo. The greenfield development share of net housing stock increase has reduced by 18% since 2018. This has been an ongoing trend as greenfield land becomes fully developed and future greenfield land is still to be released.

Infill share includes retirement villages and apartments

Figure 6: Urban growth areas (orange) – Palmerston North

Figure 7: Urban growth areas (orange) – Ashhurst



Infill share includes retirement villages and apartments

3.4.7 Bedroom sizes

Three to four-bedroom houses make up majority of new residential builds over the past two years. This is a continuing theme for new houses built in the city, with majority of the city's housing stock consisting of three or four bedrooms (69%).

Table 4: Bedroom number breakdown per dwelling - 2020

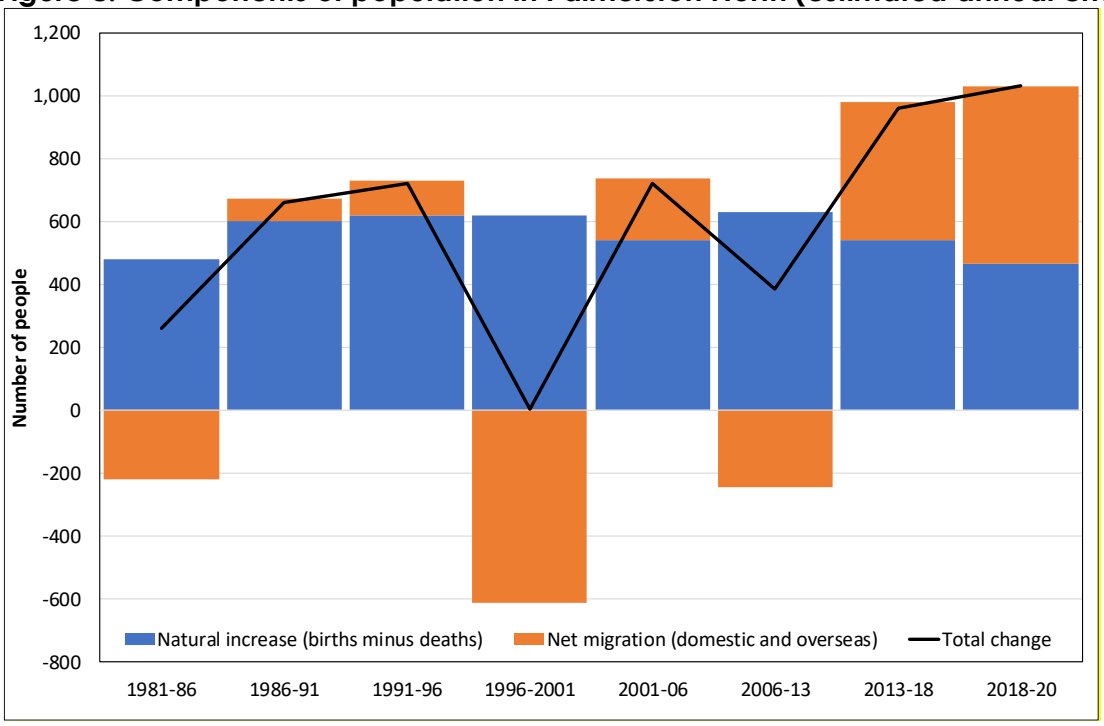
Bedroom no.	No. of dwellings
1	72
2	93
3	125
4	125
5+	14
Total	**429**

Building consents issued between 2018 and 2020 show greenfield development usually consists of four-bedroom houses with a large floor area. The average floor area for new residential houses in greenfield areas was 205m^2, compared to new infill builds which are on average 157m^2 and are three bedrooms. One and two-bedroom dwellings are usually multi-unit or minor dwellings.

3.5 Population trends and assessing future housing demand

The latest Statistics New Zealand population estimates to June 2020 show a declining contribution to the city's population growth from natural population growth (the extent to which the number of births exceeds deaths), but net migration has increased (overseas and within New Zealand). The annual gain from net migration is increasing faster than the decline in the annual natural population increase, resulting in an increase in overall population growth.

Figure 8: Components of population in Palmerston North (estimated annual change)



Source: Statistics New Zealand

Infill share includes retirement villages and apartments

The city continues to experience a net loss from migration within New Zealand, but the estimated net loss declined from 430 people in the year to June 2019 to 280 people in the year to June 2020. Further increases in the construction of new housing stock in the city will be necessary for the city to move from a net domestic migration loss to a net gain. Figure 8 notes the percentage of new dwellings consented in the city is currently below its share of the national population.

The urban area of Palmerston North had an estimated 81,460 people in June 2020, accounting for slightly over 90% of the total population of Palmerston North. Population growth was slow in the main urban area between 1996 and 2012, when some of the current rural areas of the city were part of Manawatū District Council. Census data shows population growth in the Kairanga and Stoney Creek area units between 2001 and 2006 contributed most of Manawatū District's growth during that period. Since the 2012 boundary change between the district and city, population growth in these two area units has slowed. The growth between 2001 and 2006 came from rural lifestyle housing development during this period. Since 2012, the rate of growth in the city's urban area has strengthened and is now the same as the overall annual average growth rate for the city.

Table 5: Estimated population change by geographic area (rural-urban).

Geographic area	Annual population estimate			Average annual % growth	
	1996	2012	2020	1996 - 2012	2012 - 2020
Main urban area	70,760	75,300	81,460	0.4%	1.0%
Minor urban area (Ashhurst)	2,530	2,710	3,160	0.4%	1.9%
Rural settlements (Bunnythorpe and Longburn)	830	1,090	1,090	1.7%	0.0%
Rural (excluding rural settlements)	2,960	4,230	4,660	2.3%	1.2%
Palmerston North - total	**77,070**	**83,320**	**90,400**	**0.5%**	**1.0%**
Urban area share of Palmerston North population	91.8%	90.4%	90.1%		

Source: Statistics New Zealand

Population and household growth projections are used to assess the amount of new housing that needs to be built in the city. Table 6 below compares the population growth projections published by Statistics New Zealand in March 2021 and the alternative projections commissioned by the Council from Infometrics, which were completed in March 2020. Statistics New Zealand usually produces updated population and household projections every two to three years, to support regional and local authorities prepare new 10-year plans every three years. However, the update to the Statistics New Zealand February 2017 projections was delayed due to issues with the 2018 Census.

When work started on preparation of the city's 2021-31 long-term plan it was decided to combine with other territorial authorities, the regional council and two district health boards to commission new population and household projections from Infometrics. Infometrics also produced employment projections to assist with its modelling of population growth. The Infometrics projections were commissioned before Statistics New Zealand was able to finalise its population estimates for June 2018, which were not published in September 2020, since September 2020 was too late for organisations to prepare their long-term plans.

Infill share includes retirement villages and apartments

Table 6: Long-term medium population projections for Palmerston North

	Infometrics (March 2020)			Statistics New Zealand (March 2021)		
		Average annual change			Average annual change	
Period ended	Population count	number of people	rate of change (%)	Population count	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%
2018	87,320	764	0.9%	88,300	960	1.1%
2023	93,280	1,192	1.3%	92,300	800	0.9%
2028	97,948	933	1.0%	94,900	520	0.6%
2033	101,608	732	0.7%	97,200	460	0.5%
2038	105,843	847	0.8%	99,100	380	0.4%
2043	110,676	967	0.9%	100,700	320	0.3%
2048	114,823	829	0.7%	102,100	280	0.3%
2053	118,124	660	0.6%	not projected		

Source: Infometrics and Statistics New Zealand

Infometrics provided low, medium and high growth scenarios for population growth. The low growth projection suggests the city's population would reach 103,935 by 2053, while the high growth projection suggests a population of 134,601 by 2053.

Table 7: Alternative population projections for Palmerston North.

	Infometrics (March 2020)			Statistics New Zealand (March 2021)		
	Projection scenario			Projection scenario		
Period ended	Low	Medium	High	Low	Medium	High
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
2018	87,320	87,320	87,320	88,300	88,300	88,300
2023	91,963	93,280	94,554	90,200	92,300	94,400
2028	95,030	97,948	100,939	90,600	94,900	99,200
2033	96,802	101,608	106,709	90,600	97,200	103,900
2038	98,916	105,843	113,430	90,000	99,100	108,300
2043	101,327	110,676	121,293	89,000	100,700	112,700
2048	103,033	114,823	128,433	87,700	102,100	117,000
2053	103,935	118,124	134,601	not projected		

Source: Infometrics and Statistics New Zealand

The March 2021 population projections published by Statistics New Zealand vary slightly from its February 2017 projections, but the 2021 projection for the city's population in 2043 is identical to its 2017 projection. Statistics New Zealand has projected a higher net contribution to population growth from migration but the contribution to growth from births is lower, due to a projected decline in fertility rates (average number of children born to women during their reproductive years).

Infill share includes retirement villages and apartments

Table 8: Statistics New Zealand projections for contributions to population change.

	February 2017				March 2021			
	Components of population change, five years ended 30 June				Components of population change, five years ended 30 June			
Period ended	Births	Deaths	Natural increase	Net migration	Births	Deaths	Natural increase	Net migration
2001	5,500	2,500	3,100	-3,100	5,600	2,500	3,100	-3,100
2006	5,300	2,700	2,700	1,000	5,300	2,700	2,700	1,000
2013	5,900	2,700	3,100	-600	5,900	2,700	3,100	-600
2018	5,600	2,900	2,700	2,000	5,600	3,000	2,700	2,200
2023	5,900	3,000	2,800	400	5,600	3,100	2,500	1,500
2028	5,900	3,200	2,800	0	5,400	3,300	2,100	500
2033	5,900	3,400	2,500	0	5,300	3,600	1,800	500
2038	5,800	3,700	2,200	0	5,300	3,900	1,400	500
2043	5,900	4,000	1,900	0	5,400	4,300	1,100	500
2048					5,500	4,600	900	500

Source: Statistics New Zealand

Infometrics used Statistics New Zealand projections for change in fertility rates and life expectancy but took a different approach to modelling domestic and overseas migration. Statistics New Zealand estimates net migration at a territorial authority using a top-down approach, setting a fixed assumption at a national level and then modelling changes in migration at a local level. The March Statistics New Zealand 2021 projections were based on an assumption of a net annual gain from migration of 25,000. This is significantly lower than the net average annual gain of 63,620 people between 2013 and 2018, and gains of 52,200 people in the year to June 2019 and 79,400 people in the year to June 2020.

Infometrics forecast long term international net migration to New Zealand by considering a wide range of factors affecting the New Zealand and global economy. Recent historic levels in excess of 60,000 were considered unlikely to be achieved for a sustained period in future, with steady employment growth projected and an ageing population. It expected labour market conditions to remain tight, leading to sustained positive net migration well into the future, aided by favourable work visa conditions. Between 2018 and 2024, it adopted The Treasury's 2020 forecast, which showed a transition from 50,000 in 2018 to 35,000 in 2024. Beyond this, Infometrics projected an annual net migration level of 30,000 to be maintained out to 2051. Its low and high scenarios represent net migration levels 50% lower and higher than the medium scenario respectively.

Migration was apportioned by Infometrics out to territorial authorities using a mix of two approaches. Firstly, historic inter-regional migration trends as assessed by Statistics New Zealand were used to forecast the volume of non-employment driven migration, such as people moving towns for retirement. Secondly, forecast labour market shortfalls were used to forecast the volume of employment driven migration, such as people moving towns for a new job.

For both employment and non-employment driven migration, Statistics New Zealand projected age and sex profile of migrants to the city were used. Estimates for migration were then manually adjusted to reflect:

Infill share includes retirement villages and apartments

- Feedback from regional stakeholders at a population projections workshop
- Recent population growth trends (particularly 2017-2019 population growth to inform projections of 2018-2023)
- Recent building consenting trends
- Provision of capacity for future housing growth (based on information provided by district and city councils)
- Patterns of commuting across territorial authority boundaries, based on 2013 and 2018 Census data.

These adjustments were necessary to:

- Ensure that the projections realistically transitioned from historical periods into the future
- Reflect commuting patterns i.e. where employment growth in one territorial authority prompts population (and household) growth in a neighbouring territorial authority
- Reflect that provision of housing will influence the distribution of population within or across regions.

Infometrics faced significant challenges with projecting population and household growth, using two workshops with the territorial authorities and DHBs in the region and the regional council to get feedback on whether its projections made sense. Two key challenges discussed were:

- The extent to which individual territorial authorities could feasibly rezone the amount of land required to accommodate faster housing growth and the infrastructure required to ensure it could be developed.
- Future change in commuter patterns within the region. Census data shows that by 2013, 20% of Palmerston North's workforce lived in another territorial authority, but by 2018 the commuter share had reduced to 15%. The number of people travelling into Palmerston North for work had declined, but there was also a decline in the number of Palmerston North residents travelling to other areas for work.

3.6 Future household growth trends

The number of consents for the construction of new houses in Palmerston North has been low compared with its share of New Zealand's population, but that gap is closing. A key factor over the period from 1996 to 2013 which contributed to the weak increase in housing supply in Palmerston North was population decline in parts of the city's wider labour market catchment. This contributed to a widening gap in house prices between the city and adjacent areas, resulting in growth in the proportion of the city's workforce that lived in another territorial authorities. Population growth in the wider region accelerated from 2013, resulting in much higher housing demand in housing than was experienced between 1996 and 2013 and strong growth in rents and house prices across the region.

Infometrics provided projections for household change in Palmerston North, which indicate stronger growth in the city compared with the December 2016 projections from Statistics New Zealand. Statistics New Zealand will not be producing updated family and household projections until the first quarter of 2022.

Infill share includes retirement villages and apartments

The household growth assumptions used by Infometrics (Table 9) are based on past changes in family and household size and expectations for the future. Past changes have included an increase in single parent households and growth in both couple only and single person households. The *couple without children* households include couples whose children no longer live at home.

Table 9: Long-term projections for Palmerston North households by family type

Household type	2013	2018	2023	2028	2033	2038	2043	2048	2053
Couple without children	9,235	10,129	11,035	11,840	12,449	12,684	12,883	13,165	13,649
Two parents with children	8,939	9,240	9,457	9,828	10,446	11,232	11,967	12,562	13,015
One parent with children	4,271	4,368	4,485	4,661	4,861	5,038	5,296	5,548	5,739
Other multi-person household	1,494	1,572	1,741	1,917	1,977	1,989	2,023	2,072	2,107
One person alone	7,001	7,464	8,121	8,742	9,302	9,792	10,349	10,826	11,220
Non-private dwelling (people)	1,766	1,891	2,084	2,299	2,470	2,839	3,106	3,370	3,473
Total	30,940	32,773	34,838	36,988	39,035	40,735	42,518	44,173	45,730

Source: Infometrics

The delays in completion of Census population and household counts meant that Infometrics based its household occupancy assumptions on living arrangement type rates from the 2013 Census. These assume an average of 2.6 persons per household. The household data excludes people living in non-private dwellings. These include:

a. Educational institutions (such as student hostels)
b. Residential care for older people
c. Defence establishments
d. Residential and community care facilities
e. Prison or penal institution
f. Welfare institution

Table 10: Number of Palmerston North residents in occupied non – private dwellings, March 2013

Non-private dwelling type	Number of people
Educational institution	1,200
Residential care for older people	690
Defence establishment	276
Residential and community care facilities	195
Prison or penal institution	147
Welfare institution	6
Total population	2,514

Source: Statistics New Zealand

The 2013 Census recorded 2,500 people living in 189 non-private dwellings, although Infometrics used an estimate of 1,766 people for its projections. There were 171 non-private dwellings identified in the 2018 Census, but data has not been published for the number of people living in non-private dwellings in 2018.

Infill share includes retirement villages and apartments

3.7 Challenges with assessing future housing demand

The primary challenge with projecting population growth in Palmerston North is the ability for the city's labour force to easily find affordable housing outside of the Palmerston North city boundary, but still within an easy commuting distance from Palmerston North. Feilding, with an estimated 17,050 people in June 2020 is a 22-minute drive from Palmerston North, while Levin, with 18,800 people is a drive of 43 minutes.

There was significant growth in the city's commuter workforce between 1971 and 2013, but commuter numbers declined between 2013 and 2018. Some of this decline is due to the improvement in economic growth in the region. As a result, more people were able to find employment closer to where they lived. Between 2013 and 2018 there was also a decline in the number of Palmerston North residents travelling to other areas for work.

It is likely the Infometrics projections plus the additional NPS growth margin will be too low because:

- They are based on the October 2019 Statistics New Zealand population estimates, which suggested annual population growth of 760 people a year between 2013 and 2018. Revised population estimates published by Statistics New Zealand in September 2020 showed actual growth was 960 people a year. The average annual growth rate from 2013 to 2018 was 26% higher than assumed by Infometrics when it was preparing its projections.
- There has been a significant increase to the major projects used to adjust the base-line employment projections, which were supplied to Infometrics in December 2019. Since then the value of projects identified over the next fifteen years has increased by more than $3 billion. No value was available when the projections were being prepared for the construction of the KiwiRail freight hub, but initial estimates by KiwiRail suggest supplied in its Notice of Requirement for the fright hub site suggest an initial construction cost of $1 billion. Initial estimate by KiwiRail suggest it could attract up to $3 billion in additional logistics infrastructure over the next 20 – 30 years to Palmerston North. This would have a significant impact on the level of economic growth in the city, even if the increase in investment is lower than the preliminary estimate.
- In addition to these major commercial construction projects, the Government has announced that Kainga Ora will construct 415 houses in Palmerston North between 2021 and 2024. This has also been confirmed since the Infometrics projection were completed.
- Infometrics has based its overseas migration assumptions on an expectation that net migration will decline to 30,000 people a year by 2025. No rationale has been provided for why net migration is expected to decline. Economic data for Australia and New Zealand shows a widening gap between unemployment rates and GDP growth for the two countries since 2013. This is likely to have been an important factor in the decline in the net migration loss to Australia over that time period and the increased net migration gains for New Zealand from other countries. The gap between unemployment rates in New Zealand and Australia widened during 2020, so there is potential for net migration levels to increase strongly now that people living in Australia are no longer required to go through managed isolation when they travel to New Zealand.

Infill share includes retirement villages and apartments

- Assumptions were made by Infometrics about the ability of Palmerston North to fully respond to increased housing demand from its growing workforce (see figure 8). While there is currently a shortage of greenfield land available in the city, changes made to the District Plan four years ago have enabled a much higher level of infill development than was assumed in previous long-term plans. That has allowed a larger increase in net housing stock during 2020 than Infometrics has projected, despite limits on the quantity of greenfield development possible in the last 12 months. Investment by the Council in accelerating the rezoning of additional greenfield land and rezoning of brownfield sites will significantly increase the number of sections available for development over the next two to three years. However, the rate of development of this land will be influenced by how quickly land is released to the market by developers.
- The projections also assume that Manawatū and Horowhenua districts will continue to absorb some of the workforce growth occurring in Palmerston North, resulting in growth in the city's commuter workforce. However, building consents data for 2018 to 2020 shows a gradual decline in the number of new houses consented in both districts, from 482 consents in the year to December 2018 to 439 in the year to December 2020. The number of consents issued in Palmerston North increased from 477 in 2018 to 524 in 2020. Both Horowhenua and Manawatū districts also are affected by the same challenges of zoning enough land to support housing demand and providing the infrastructure to enable houses to be built. Future population growth in the city will be influenced by how readily the three councils can enable faster housing development.
- There is a risk the projections for Palmerston North will be too high if the city is unable to support sufficient housing growth, resulting in a decline in affordability compared with other main centres. House prices in the city in the city are now higher than Christchurch, New Plymouth and Rotorua, but two years ago prices in Palmerston North were lower compared with these urban areas. The strong growth in house prices in the city would support stronger housing growth in the territorial authorities close to Palmerston North. If developers are slow releasing land to the market in Palmerston North, this could undermine the Council's investment in ensuring land was available for development.

Infill share includes retirement villages and apartments

4 Land supply

4.1 Overview

Where land for development is available, it is largely owned by housing developers whom are actively developing or are in the process of bringing land to market. Table indicates the number of housing lots that have undergone the plan change process and will be ready for housing development in the near future. Table indicates when lots will be notified to supply further land for housing development.

There are some significant plan changes being developed to rezone additional land to increase housing supply, outlined in section 4.6, which indicates where greenfield land supply will be increased over the short (1-3 years), medium (4-10) and long (10-30) terms, providing a total of 7,810 additional lots for housing development. The total number of lots likely to be available through the existing and future plan changes is 9,130 lots.

Table 11: Lots currently available (subject to consenting), as at February 2021

Location – Zoned Land	Lots	Timing
Milson	50	Available now (subject to consenting)
Napier Road Residential Extension Area	50	Available now (subject to consenting)
Napier Road – Private plan change (Marriott Block)	100	Available now (subject to consenting)
Kelvin Grove	100	Available now (subject to consenting)
Kikiwhenua	230	Available now (subject to consenting)
Whakarongo	550	Available now (subject to consenting)
Centennial Park	80	Available now (subject to consenting)
Tremaine Ave	30	Available now (subject to consenting)
Aokautere – Brian Green	80	Awaiting final subdivision approval
Aokautere	200	Available now, subject to confirmation of land stability following earthworks.
Total	**1,320**	

Table 12: Future supply proposed, as at June 2021

Location Zoning Proposals	Lots	Timing
Ashhurst	400	Notify mid 2021
Aokautere extension	1,000	Notify mid 2021
Roxburgh Crescent	100	Notify mid 2021
Whiskey Creek	160	Notify mid 2021
Kākātangiata	6,000	Notify late 2021
Total	**7,810**	

4.2 Methodology

4.2.1 Geographic information system (GIS)

GIS analysis has been used to identify housing supply by using valuation numbers to match new residential builds and identifying remaining lots available for greenfield and rural developments.

Greenfield:

Greenfield developable lots are subtracted from growth areas layer by parcel. The minimum lot size for greenfield areas is generally 500m^2 so this has been used to determine lots remaining. Roading infrastructure (including footpaths) is also counted for in this figure, therefore 10% of the hectares calculated will be subtracted. To determine the remaining developable lots, the equation below is used:

Hectare size / min lot size (500m^2) – 10% = number of lots.

This data this is based on land availability as at 31 December 2020.

Infill development:

GIS analysis assessed the infill landbank by identifying properties in the residential zone that can be further subdivided under the current District Plans planning parameters. This involved identifying additional lots that meet the 350m^2 minimum lot size threshold. Site coverage, access and placement of existing dwellings were also factored in. This analysis was used to identify sites that could readily be subdivided. There is also significant theoretical capacity in the existing residential zone, provided landowners reconfigure buildings onsite or remove them completely.

Rural residential:

The rural residential supply was based on a minimum lot of sizes of 1ha (10,000m^2). The total area of the rural residential overlay was used and divided by 1 ha lots. All lots that have building consents or houses on them as at 31st December 2020 were subtracted from this figure. This figure also includes land used for rural purposes such as stock grazing.

4.2.2 Limitations

The GIS analysis has identified that there may be errors using valuation number to identify parcels from BC data because there can be duplicate valuation numbers, which get automatically cancelled out. The GIS analysis has manually identified these errors and has tried to mitigate this issue.

Data used for this analysis was taken from Council's building consent database, Alpha One. There were some issues using this database as it is specifically designed for meeting the requirements of the Building Act. The way the data is collected (customer inputted) and collated in Alpha One is not well set up to assist with monitoring housing growth at the level of granularity that the NPSUD requires. Because data is inputted by customers there is also a data accuracy risk regarding the information that is submitted. For example, some building consent applicants categorise minor dwellings as sleepouts and some multi-unit developments are reported as one building. Additional manual processing and GIS analysis has been applied to consenting data to try to overcome the shortcomings of Alpha One and provide as accurate as possible data to inform this housing assessment.

Infill share includes retirement villages and apartments

4.3 Greenfield supply

There were 1,429 greenfield lots available for development as at 31 December 2020, based on 500m^2 sections which are subject to resource consenting. Some of these sites have restrictive covenants that don't allow for subdivision and addition of more dwellings on one site. For example, larger sites that could be subdivided in the Greenfield zone based on a size larger than 1,000m^2 cannot be subdivided without the permission of the developer.

4.4 Infill supply

There is capacity in the existing residential zone to readily accommodate an additional 1,417 infill lots. This is based on subdivision conforming with the District Plan's 350m^2 minimum lot size. Infill development has traditionally been undertaken through subdivision of the back or front yard. This approach is not always readily able to be accommodated by landowners, due to the siting of existing buildings. The traditional built form of housing in Palmerston North has seen houses built with a 10-12m setback from the road, houses located in the centre of the property, with a garage located at the rear with a large backyard. Depending on the size of the house constructed, the ability to portion off a 350m^2 section from the principle lot is difficult to achieve, even if the garage is removed.

Because of this, there is an increasing trend for developers to apply for consents lower than the 350m^2 threshold. However, the consenting process for undersized lots is more detailed and requires a higher level of design consideration than those above 350m^2. The development sector is struggling to address urban design considerations and often does not resource the process adequately with appropriate technical experts to meet the District Plan's intended outcomes. This is leading to conflict in resource consenting processes, which creates delays and increased costs. Some developers have expressed that they will try to avoid consenting processes for undersized lots if they can. The Council has a Delivering Change Programme, which provides support for developers to navigate consenting processes which have a strong design element. This has had a strong uptake, and has led to positive outcomes, but the budget is only small.

Because land values have increased significantly in recent years, and the housing stock is aging and sometimes poorly maintained, another emerging trend is the removal of existing houses to facilitate subdivision. This more comprehensive development approach is providing greater yields and providing better design outcomes. Development companies and Kainga Ora are increasingly taking this approach for intensification, often leading to one dwelling being replaced with three. Even greater yields are being achieved through site agglomeration and multi-unit development. There have also been more consents issued to move an existing house within the site to allow one or more additional houses to be built.

Significant opportunity exists in the existing residential zone to accommodate infill development. In Palmerston North, 11,895 lots are over 700m^2 and could theoretically be subdivided if existing dwellings were removed. Capital to land value calculations indicate that redevelopment opportunities exist in over 60% of the city. If land values continue to increase, the economic feasibility of redevelopment will also continue climb. This suggests that intensification capacity is likely to be much higher than the 1,417 lots that have been identified as readily available to be subdivided.

Infill share includes retirement villages and apartments

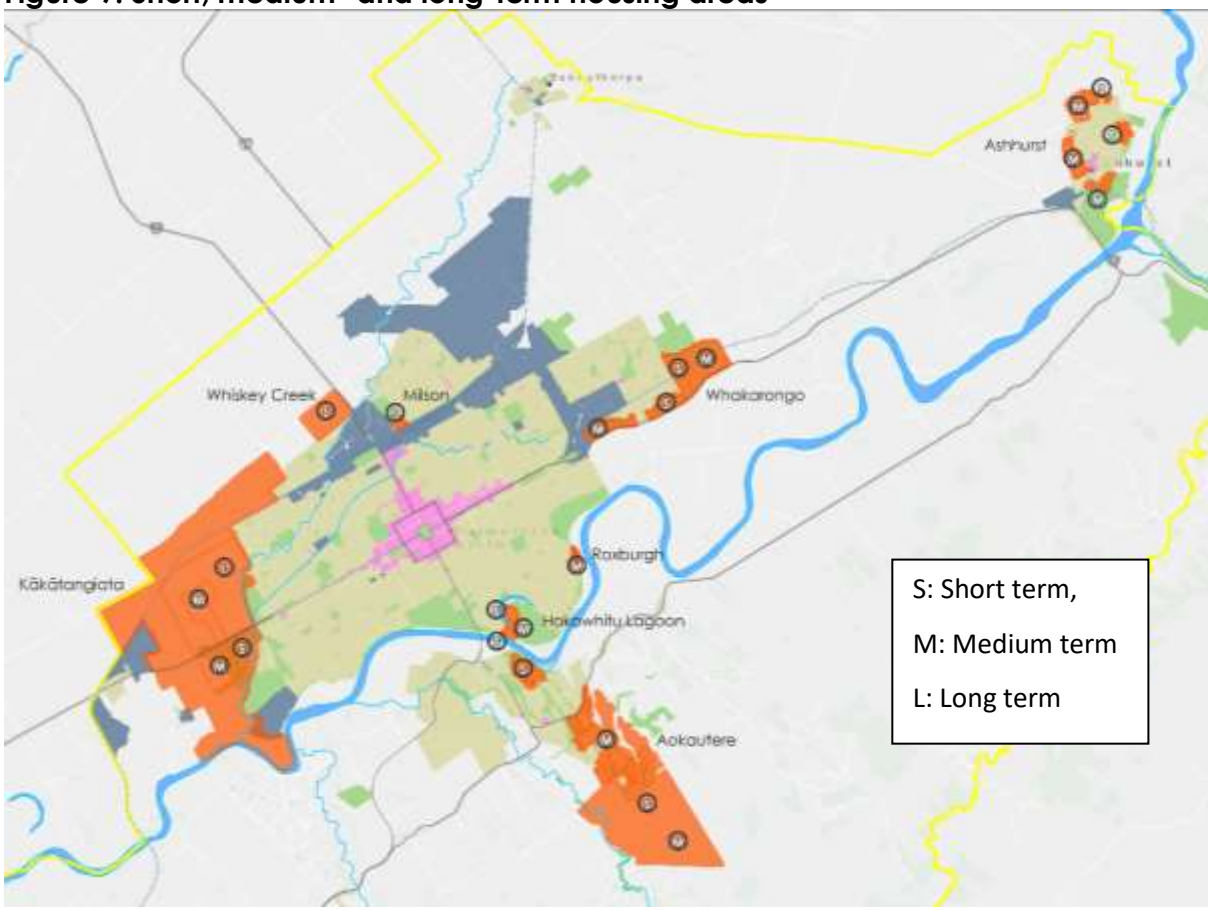
4.5 Rural residential supply

There is a supply of 2,067 1ha lots available under the rural residential overlay as at 31 December 2020.

4.6 Future growth areas

This section provides an overview of upcoming plan changes that will provide lots for housing developments over the short, medium and long term. Due to a desire to protect high class soils, and minimise risks from natural hazards (flooding, liquefaction, slope instability), where that is possible, the areas identified are likely to be the final extent of greenfield growth that will be able to be accommodated in the city. Sprawl beyond these areas will be discouraged and greater reliance will be placed on accommodating housing growth within the existing urban area through intensification. Future greenfield growth plan changes will seek to reinforce this by defining ultimate urban edges. Furthermore, to make efficient use of the future growth areas, a range of housing typologies will be expected to be delivered, including multi-unit development. Future urban growth areas will also need to develop in a comprehensive manner that can meet local needs. This includes the provision of retail, employment, education and other amenities. Future growth areas are shown in Figure 9.

Figure 9: Short, medium- and long-term housing areas



Infill share includes retirement villages and apartments

4.6.1 Plan Change F: Ashhurst

Ashhurst was identified as a residential growth area in 2017, with four areas proposed to be rezoned from rural to residential. This plan change will provide 400 lots for the medium to long term and is expected to be notified late 2021.

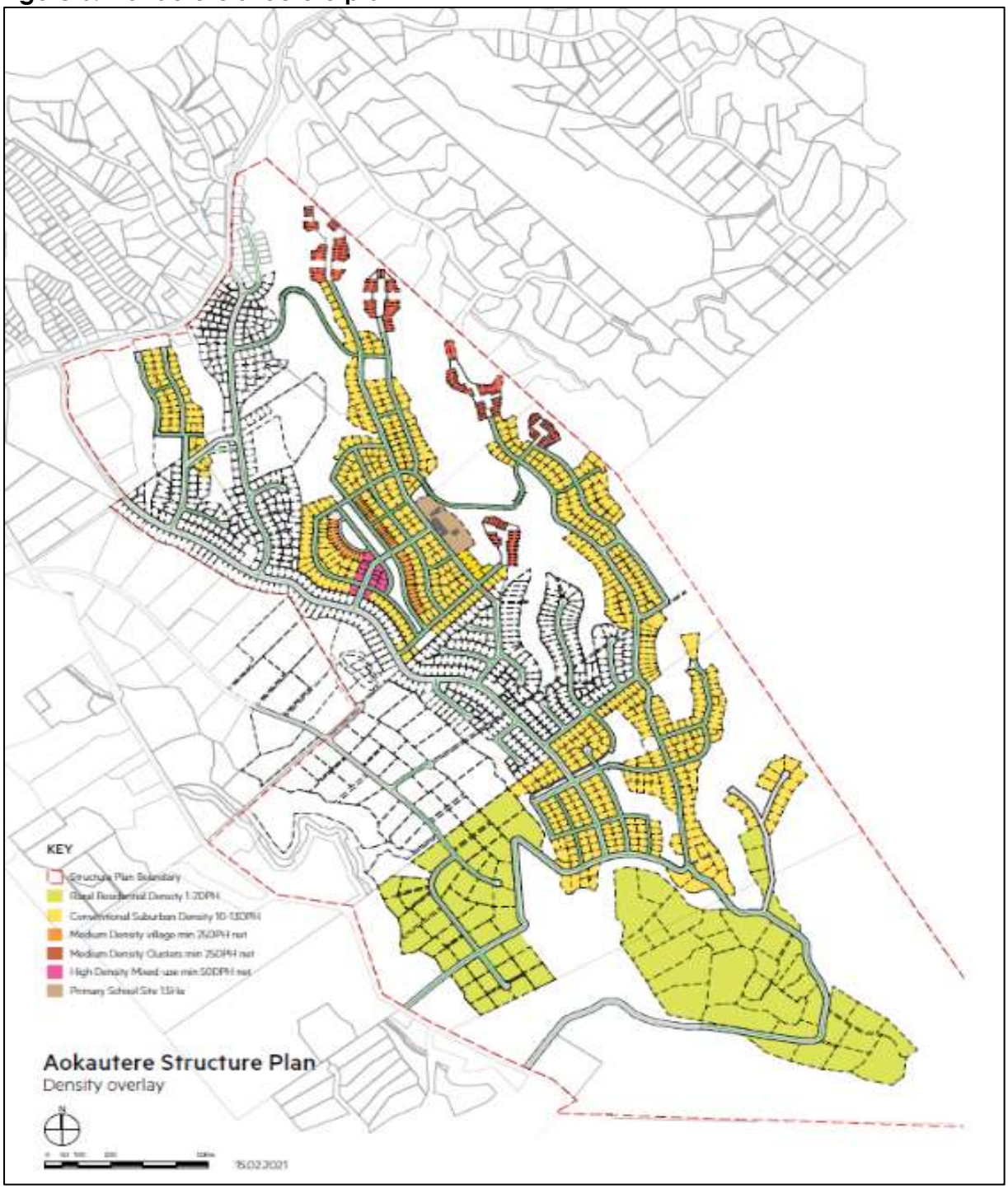
Figure 10: Ashhurst growth areas

4.6.2 Plan Change G: Aokautere

Significant greenfield development has already taken place in Aokautere. However, most of this serviceable land has been developed. An upcoming plan change will add further development capacity of 1,000 lots. Due to strong demand for housing, Council will seek to require more intensive development than the traditional urban form provides.

Infill share includes retirement villages and apartments

Figure 6: Aokautere structure plan



4.6.3 Hokowhitu Lagoon residential area

The Hokowhitu residential area will create 130 new dwellings in the short and medium terms, consisting of standalone houses, multi-unit and apartments in a three-stage process. Stage 1 is currently in construction and Stage 2 has been consented.

Infill share includes retirement villages and apartments

Figure 7 Hokowhitu Lagoon structure plan

4.6.4 Plan Change H: Kākātangiata

Kākātangiata, formerly known as 'City West', is expected to provide long term greenfield housing options for 6,000 additional houses over the long-term. Investigation begun in early 2020 and now the plan change is currently in the preparation of a masterplan stage. The formal plan change process will run through 2021 to 2022. Kikiwhenua (Plan Change C) and Private plan change B – Pioneer City West Ltd (notified in August 2013) is a part of this wider area. Due to strong projected demand for housing, Council will seek to require more intensive development than the traditional urban form provides.

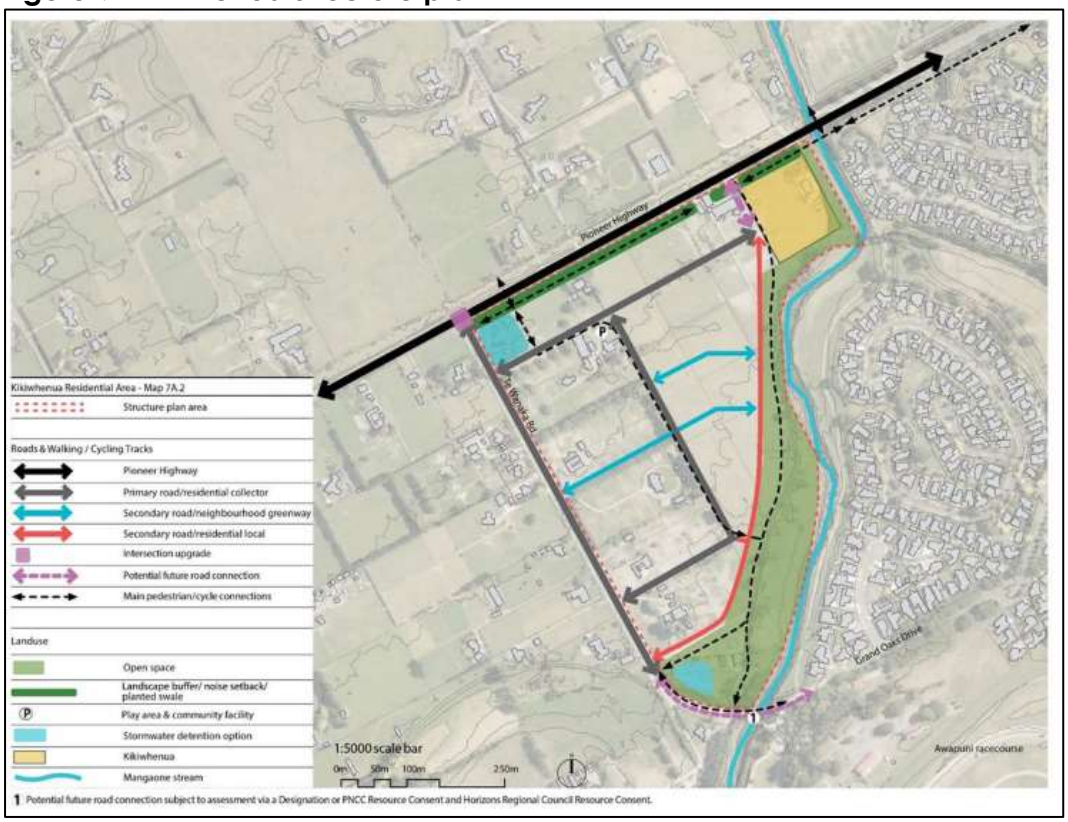
Figure 8: Kākātangiata study area

Infill share includes retirement villages and apartments

4.6.5 Plan Change C: Kikiwhenua

This plan change was notified in late 2018 and became operative on 18 January 2021. Plan Change C rezoned land west of the city from racecourse use to residential. Kikiwhenua is a part of the wider Kākātangiata growth area (see section 4.6.4 above). Kikiwhenua provides capacity for 220 sections.

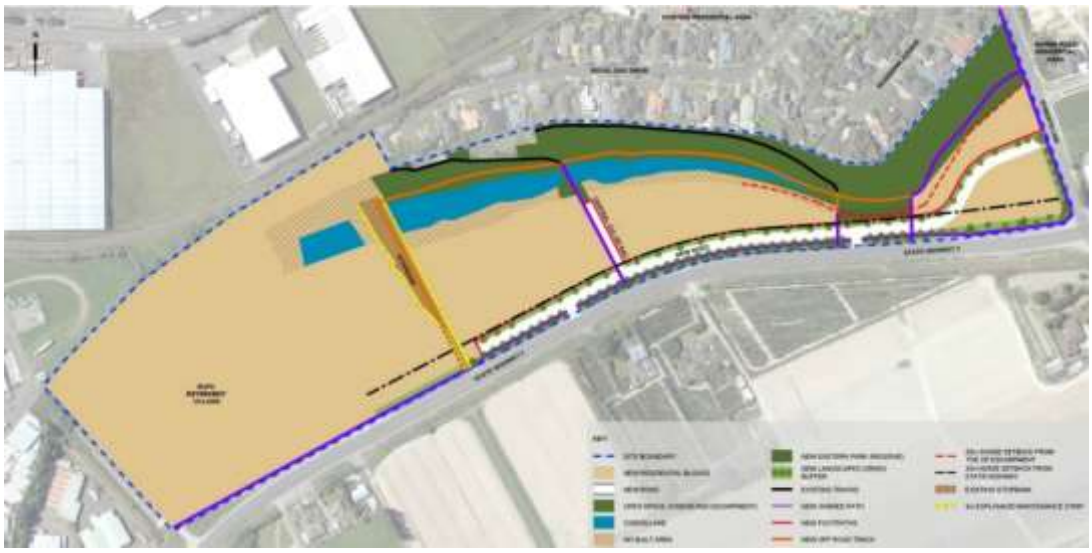
Figure 9 Kikiwhenua structure plan



4.6.6 Plan Change B: Napier road extension area

Plan Change B was notified in 2019 and was made operative on 21April 2021. This plan change rezoned rural land to residential to enable the development of 50 lots along Napier road.

Figure 10: Napier Road extension area structure plan



Infill share includes retirement villages and apartments

4.6.7 Plan Change 4A: Napier Road (Marriott block)

This block of land is located along Napier road between Roberts Line and James Line, which can be accessed using Freedom Drive. Rezoning has been completed and the area provides capacity for approximately 100 additional lots.

Figure 11: Marriott block of the wider Napier road extension area.

4.6.8 Plan Change E: Roxburgh Crescent

Roxburgh Crescent is an industrial area in Hokowhitu. A plan change is in preparation to rezone the area to residential and provide capacity for approximately 100 dwellings over the medium term. Planning is still under way and a District Plan change is expected to be notified in late 2021. Due to strong demand for housing, Council will seek to require more intensive development than the traditional urban form provides.

Figure 12: Roxburgh Crescent structure plan

Infill share includes retirement villages and apartments

4.6.9 Whakarongo

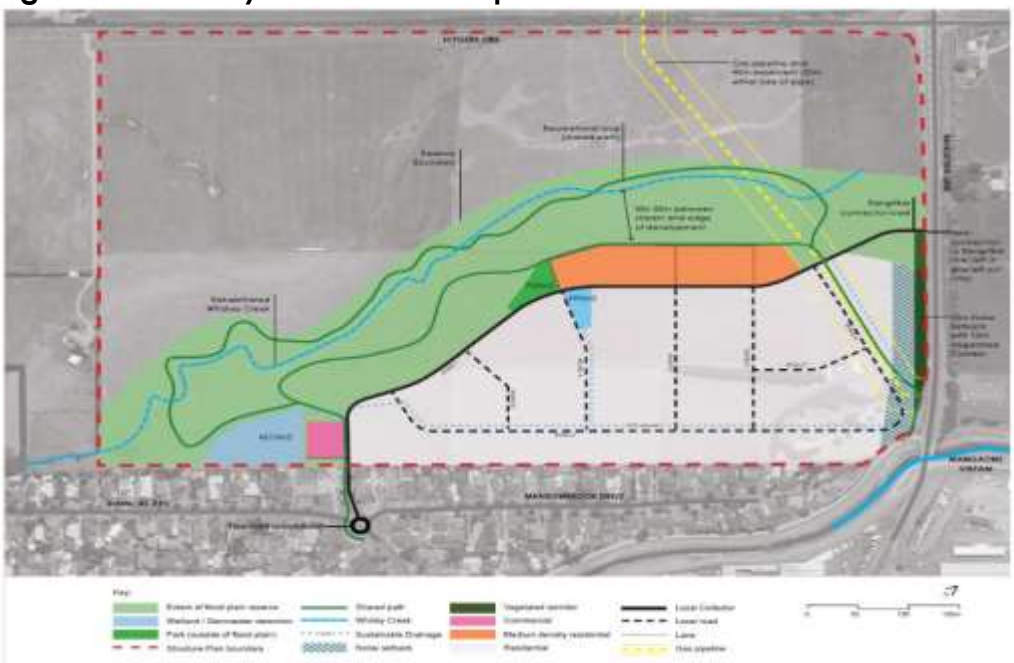
Subdivision development is currently underway in Whakarongo, led by a 114 lot Council development at Tamakuku Terrace, off James Line. This wider Whakarongo Growth Area provides for 550 greenfield lots for the short term.

Figure 13: Tamakuku subdivision plan

4.6.10 Whiskey Creek

Whiskey Creek is a private plan change, which was recently lodged with the Council. The application seeks to rezone rural land to residential to provide capacity for an additional 160 houses between Meadowbrook (Cloverlea) and Flygers Line. The Whisky Creek Private Plan Change will be notified in July 2021.

Figure 14: Whiskey Creek structure plan



Infill share includes retirement villages and apartments

4.6.11 Council land for housing

There are opportunities to provide for housing using Council owned land. The following areas have currently been identified as possible options:

Summerhays Street/ Terrace End Bowling Club.

The Terrace End Bowling club is no longer used and has been vacant since mid-2020. Housing is the preferred option by council for the use of this site. It is council owned – half zoned residential and other half zoned recreation. A proposal to repurpose the land for housing commenced consultation in early June 2021. If the proposal is successful, a District Plan change will be prepared to rezone the recreation zone portion to residential and enable redevelopment of Summerhays Reserve for housing.

Albert Street Depot

The depot is Council owned land used for operational work and storage at the corner of Albert and Fergusson Streets. There have been discussions about using this land for housing. No plans have been developed nor has there been any consultation on the proposal. However, there needs to be a new site to relocate the depot before any development can proceed.

Huia Street Reserve

Huia Street is a council owned reserve – previously used by the Manawatu Bowling Club located on the corner of Fitzherbert Ave and Park Road. Using this land for housing is the preferred option by council, as it hasn't been used since 2005. For this to happen a request needs to go to central government to take the reserve out of the Palmerston North Reserves Act.

Underutilised reserves and sports fields

Other opportunities for increasing housing supply in the existing urban area could include repurposing underutilised reserves. This could also include the partial relocation of sports fields. Many sports fields are in areas that are close to employment, education, commerce and other amenities, making them ideal for housing. Sports fields are primarily used on weekends, with some use during the week. Many sports fields are unavailable for use during parts of winter, due to poor soil conditions and rainfall. Repurposing some sports fields for housing could be a more efficient and effective option. If some sports fields are fully or partially repurposed, the community need for these facilities will still need to be met. This could be provided by developing purpose-built all-weather sports fields on the urban edge, where land is more affordable. The development of new facilities could be funded through the proceeds from the development of exiting urban reserves for housing. Further investigations would be required to determine whether this approach should be considered and acted on.

Infill share includes retirement villages and apartments

5 Capacity

5.1 Overview

This section provides an overview of the new NPSUD requirements for identifying development capacity and how this compares to PNCC's housing initiatives and strategic direction. This provides an update on future housing and social housing capacity based on supply and demand data.

In the short-term, Palmerston North has a total capacity for 2,737 homes (1,417 infill and 1,320 greenfield).

In the medium and long terms an additional 7,810 greenfield lots will be rezoned, to cater a growing population of 450 – 1,350 people a year (see table 10). Further infill subdivision capacity may need to be enabled in the medium and long terms to enable growth demands to be met. The extent of any changes to enable further infill or intensification will be influenced by the willingness of the market to remove older housing stock, rather than the traditional approach of subdividing off the front or back yard to accommodate additional allotments. The removal of older homes provides significant scope for catering for projected demand for intensification, with 11,895 lots being identified as either 700m^2 or greater.

The approach used for identifying feasible housing capacity is based on:

- land in existing and new urban areas
- providing for standalone dwellings and attached dwellings
- provision for the short, medium and long term.
- plan enabled land
- infrastructure ready
- feasible and reasonably expected to be realised.

5.1.1 Strategic direction

Draft long-term plan 2021

The 2021 long-term plan (LTP) has a sustainable growth outlook for housing, ensuring supply meets demand. The LTP outlines, housing affordability will be provided by rezoning sufficient land and providing supporting infrastructure. Targets outlined in section 5.3 will aid in implementing strategic direction in the plans to meet housing demand.

Draft City Growth plan 2021:

The Draft City Growth Plan 2021 provides direction to Council as to how to address housing supply. This plan has specific reference to the NPSUD, providing direction on how the city will create well designed and connected city development to contribute to affordable housing and long-term prosperity.

The housing and future development provides strategic direction on where and how the city will grow to meet the strong projected growth. This includes rezoning land at Kākātangiata, Aokautere and Ashhurst and updating the District Plan to enable intensification. Council also owns many sites where housing development could occur, which are discussed in section 4.6.11. Council and government land to be used for market and affordable housing will be identified.

Draft innovative and growing city strategy 2021:

The strategy outlines that PNCC will monitor the following:

- Ratio of rent to median household income in Palmerston North
- Ratio of house price to median household income in Palmerston North
- Number and type of new houses
- Location of new rural subdivisions
- Housing density

Future development strategy (FDS)

This document will be used to inform the FDS and will be developed in late 2021.

Council growth strategies are the evidence that there is sufficient development capacity. These growth strategies are available to the public and work is underway to bring land to the market within the proposed timeframes.

The direction of Council growth strategies will be impacted by external factors that are outside of the council's control. These factors can include population changes, environmental constraints, infrastructure availability and issues outlined in section 7.1. Council will continue to monitor population trends and the take up of land for housing developed.

5.2 Future housing capacity

Table 11: Summary of future population projections for Palmerston North.

	2021	2026	2031	2036	2041	2046	2051
High	91,660	98,385	104,401	110,741	118,148	125,577	132,134
Medium	90,896	96,081	100,144	104,149	108,743	113,164	116,804
Low	90,106	93,803	96,093	98,070	100,362	102,350	103,574
Average annual change							
High		1,345	1,203	1,268	1,481	1,486	1,311
Medium		1,037	813	801	919	884	728
Low		739	458	396	458	398	245

Source: Infometrics

The Infometrics medium long-term projections (Table 11) suggest the city's population may reach 116,804 people by 2051. To achieve this population increase, its projections suggest the City's housing stock will need to increase to provide for 45,107 households by 2051 (table 12).

The Council was not able to consider using Statistics New Zealand household projections because it will not be publishing its 2018-base projections until the first quarter of 2022. Statistics New Zealand December 2016 household projections suggest the number of households in the City would increase by just 308 households a year between 2021 and 2026, well below current increases in net housing stock in the City.

Infill share includes retirement villages and apartments

Table 11: Summary of future household projections for Palmerston North

	2021	2026	2031	2036	2041	2046	2051
High	34,306	36,955	39,700	42,375	45,162	48,025	50,775
Medium	34,012	36,128	38,216	40,055	41,805	43,511	45,107
Low	33,700	35,273	36,739	37,845	38,741	39,508	40,144
Average annual change							
High		530	549	535	558	572	550
Medium		423	418	368	350	341	319
Low		315	293	221	179	153	127

Source: Infometrics

5.3 Future housing target

The NPSUD requires councils to provide at least sufficient development capacity to easily meet expected demand for housing. Tier 1 and 2 local authorities (Palmerston North is listed as a Tier 2 local authority) are required to provide sufficient development capacity to meet the expected demand plus an appropriate competitiveness margin. A competitiveness margin is defined as a margin of development capacity, over and above the expected demand, that is required in order to support choice and competitiveness in housing and business land markets.

The competitiveness margins for both housing and business land are:

a. for the short term, 20%

b. for the medium term, 20%

c. for the long term, 15%.

Table 13: Short, medium long-term target for housing supply

	Short-term July 2021 - June 2024 *Target includes an additional margin of 20%*	**Medium-term** July 2024 - June 2031 *Target includes an additional margin of 20%*	**Long-term** July 2031 - June 2051 *Target includes an additional margin of 15%*	**30-year total** July 2021 - June 2051
Total household growth	**Minimum growth target**			
	1,523	**3,523**	**7,925**	**12,971**
	Projected actual demand			
	1,269	**2,936**	**6,891**	**11,096**
Projected residential preference - based on minimum growth target				
Greenfield	609	1,762	4,359	6,729
Infill[1]	838	1,585	3,170	5,593
Rural/ rural-residential	76	176	396	649
Preference shares by period				
Greenfield	40%	50%	55%	52%
Infill[1]	55%	45%	40%	43%
Rural/ rural-residential	5%	5%	5%	5%

[1]Infill share includes retirement villages and apartments

Infill share includes retirement villages and apartments

Table 14: Annual estimates for the short, medium long-term growth in housing supply

	Short-term July 2021 - June 2024 *Target includes an additional margin of 20%*	**Medium-term** July 2024 - June 2031 *Target includes an additional margin of 20%*	**Long-term** July 2031 - June 2051 *Target includes an additional margin of 15%*	**30-year total** July 2021 - June 2051
Total household growth	**Minimum growth target**			
	508	**503**	**396**	**432**
	Projected actual demand			
	423	**419**	**345**	**370**
Projected residential preference - based on minimum growth target				
Greenfield	203	252	218	224
Infill[1]	279	226	158	186
Rural/ rural-residential	25	25	20	22

[1]Infill share includes retirement villages and apartments

Adding these growth margins to Infometrics medium growth projections results in the need for the Council to plan for population and household growth similar to the Infometrics high growth projections. The Infometrics medium projections plus the 20% and 15% margins suggest the Council needs to provide sufficient housing capacity for 121,664 people by 2051 and enough housing for 47,230 households.

Net growth in housing stock in 2020 (411 houses) was just below the medium Infometrics projection for 2018 to 2021 (423 houses), but acceleration in the numbers of houses being constructed during 2021 means the net increase in houses in the City will exceed the medium projection.

Commitments by Kainga Ora to increase its construction of new houses in Palmerston North is likely to result in growth in net housing stock in the City above the NPS plus 20% growth margin over the next two years of 503 houses a year between 2021 and 2026 (June years). Kainga Ora is currently expecting to build 220 houses in 2022 and 160 in 2023.

Table 15: Summary of future housing capacity to be provided

Location/plan change	Type	Lot no	Term
Ashhurst	Greenfield	400	Medium to long
Aokautere	Greenfield	1,000	Medium to long
Hokowhitu	Infill	130	Short to medium
Kākātangiata	Greenfield	6,000	Medium to long
Kikiwhenua	Greenfield	230	Short
Napier Road (PCB)	Greenfield	50	Medium
Napier Road (Marriott Block)	Greenfield	100	Short
Roxburgh	Infill	100	Medium
Whakarongo	Greenfield	550	Short
Whiskey Creek	Greenfield	160	Short
Total		**8,720**	

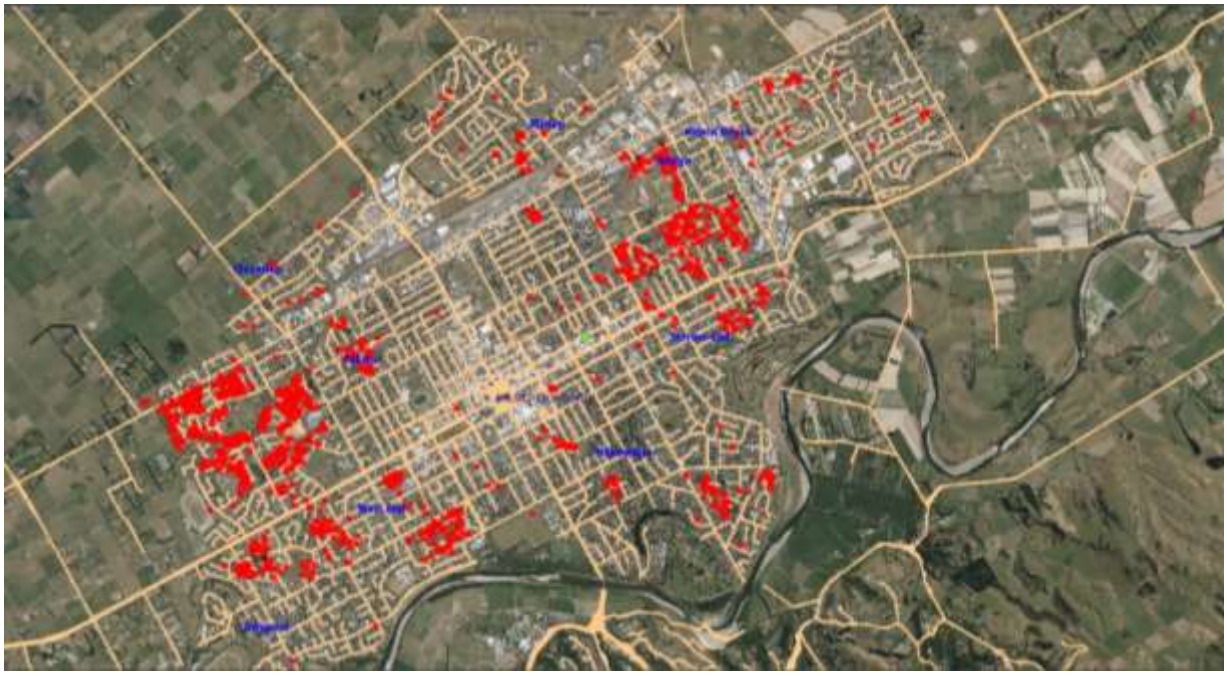
Infill share includes retirement villages and apartments

5.4 Social housing capacity

There were 685 households on social housing register in Palmerston North at the end of December 2020. The Public Housing Plan 2021 signals governments housing supply intentions for the next four years. Palmerston North is a priority area for the central North island and central government has recognised that the city is facing a housing shortage. This is where supply will be targeted.

Based on Kainga Ora's plans for 415 houses by 2024, this will not be enough for the more than 685 on the register. Other social housing providers will need to fill the gaps as the social housing register is expected to grow. The Council will review its land holdings to determine what is suitable for development as well as continued completion of the Papaioea Place social housing programme.

Figure 20: Location of Kainga Ora social housing in Palmerston North.



Source: Kainga Ora (2021) – presented at the 2021 housing summit

Infill share includes retirement villages and apartments

6 Feasibility Assessment

6.1 Overview

NPSUD, objective 6 requires that local authority decisions on urban development that affect urban environments are:

a) integrated with infrastructure planning and funding decisions; and

b) strategic over the medium term and long term; and

c) responsive, particularly in relation to proposals that would supply significant development capacity.

The feasibility of using this land for housing is dependent on a number of factors. These can be environmental, economic and regulatory factors. Some of these can be mitigated by council but others are outside of the council's control and dependant on external factors.

6.2 District Plan feasibility

The last District Plan residential zone review was carried out in 2018. The next review of the District Plan later this year and this will inform the next Housing and Business Capacity Assessment (HBCA).

Changes to minor dwelling rules were made in 2018, but only 8 have been consented in the past year. It can be observed that people tend to build sleep outs or rumpus rooms rather than self-contained units due to an additional set of rates having to be paid on the dwelling. Financial constraints may discourage uptake of minor dwellings, especially outgoing costs for construction. This year, a minor dwellings development guide booklet will be made available to the public, with rules and layout options for minor dwellings (see Section 7.2.2).

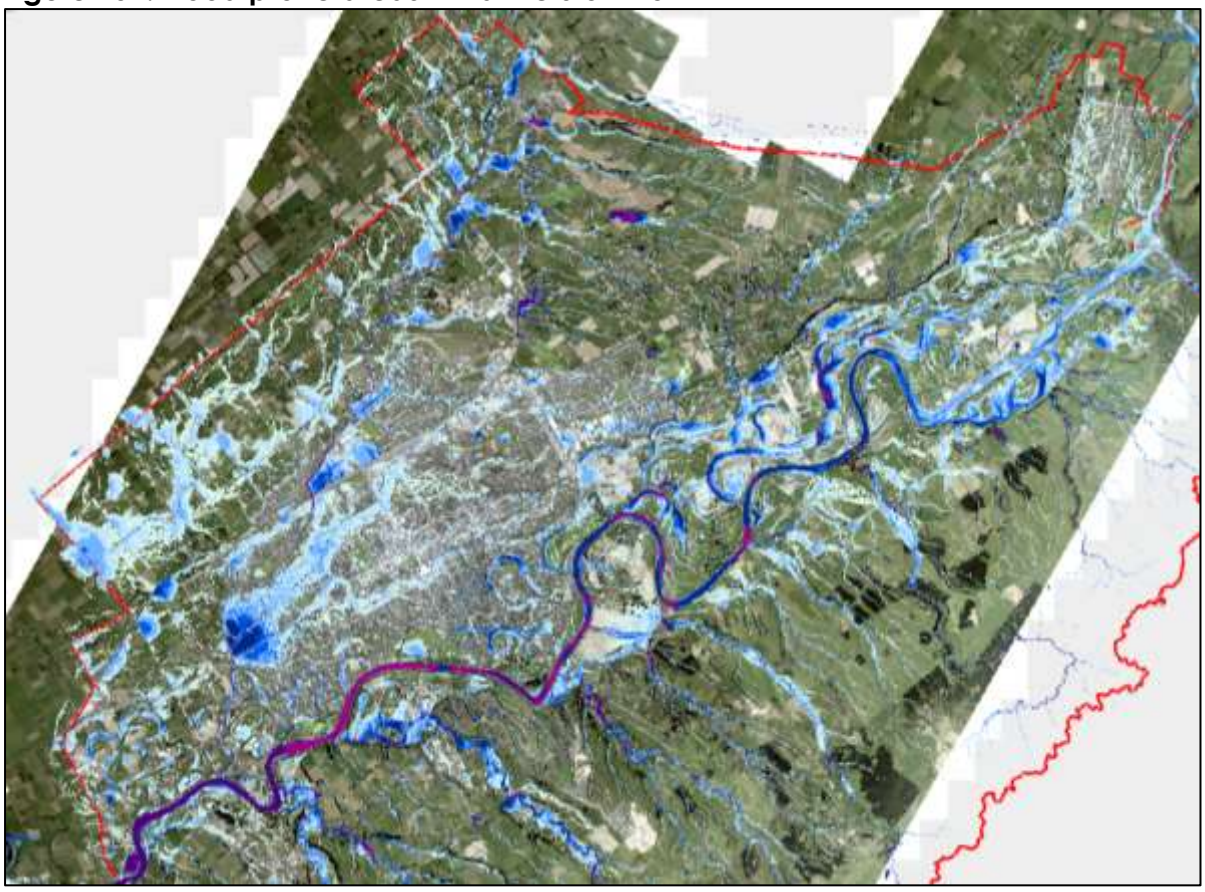
The future District Plan review could provide options for increased intensification through changes to lot sizes and the multi-unit criteria. As land prices are increasing substantially (refer to section 7.1.2), smaller minimum lot sizes provide opportunities to increase affordability, therefore this could be a feasible option to provide for smaller homes and multi-unit developments. This will need to be carefully balanced against the need to provide for good quality development outcomes.

6.3 Development feasibility

6.3.1 Introduction

Development constraints can also affect the feasibility of some plan changes. The main issues affecting the development feasibility of plan changes tend to be the need for additional infrastructure or pressures on existing networks, and flooding related or other environmental constraints.

Figure 151: Flood prone areas in Palmerston North



Palmerston North is surrounded by flood plains, versatile soils and the Manawatu River. There are also inner-city flooding risks due to elevation and ponding during heavy rainfall events. Flooding is a common risk that constrains new housing development. By the end of this century flooding events are predicted to be four times more likely to happen due to climate change in the Manawatū – Whanganui Region.

Community infrastructure is affected by all growth, especially roads and water networks. Often upgrades and extension of infrastructure are needed to cater for residential growth. This is funded through development contributions (refer to 6.4).

6.3.2 Greenfield

The future growth of Aokautere is affected by slope stability and gullies. To mitigate this, development is guided by a structure plan and geo-technical reports are provided as support for subdivision applications.

Kākātangiata also has a number of development constraints. Flood prone areas are located on the northern edge of the Plan Change area, while there is a high liquefaction risk in the southern portion. However, these risks can be mitigated by foundation design. Kikiwhenua (Plan Change C) is a part of this wider area and transport constraints were identified during the plan change process. A new intersection needs to be provided for Kikiwhenua and Kākātangiata to accommodate increases in traffic flows. This greenfield plan change is unique as there is existing ownership in this area, made up of 150 lifestyle blocks. This creates the risk of fragmentation. The area also contains high-class soils, leading to the risk of losing versatile soils for food production.

Infill share includes retirement villages and apartments

Whiskey Creek is also at risk of flooding due to being next to the floodway for the Mangaone stream. The risk of flooding in a major flooding event is unlikely due to mitigation measures proposed, such as minimum floor levels and building not permitted in zones where pooling is likely.

These development constraints in greenfield growth areas can be managed and mitigated as they are not considered to significantly restrict the number of new houses which can be built. All greenfield plan changes have undergone technical assessments, which have not indicated any constraints of concern.

6.3.3 Infill development constraints

The primary constraint for infill development is infrastructure capacity, particularly stormwater. Large parts of the network are at full capacity in large storm events[6]. As increased infill development occurs, water that was previously able to be absorbed into lawns or gardens is being directed to the reticulated stormwater network.

Due to capacity constraints, recent infill developments have been required to provide onsite solutions to manage their stormwater effects. This is a suboptimal solution. While it addresses the infrastructure constraint problem, it creates a poor amenity outcome and is likely to become a maintenance and enforcement problem in the future. The major risk is that property owners adapt stormwater tanks for storing water for summer gardening. If the primary role of the onsite solution is compromised, the wider network is likely to be affected and could result in localised stormwater related flooding. A District Plan change will be required to address this problem. Council may also need to invest in stormwater mains upgrades to ensure its infill development targets can be achieved.

Past land uses can also impact the development of new infill sites. This is the case with Plan Change E – Roxburgh Crescent which is currently zoned industrial. Industrial activities have been occurring at Roxburgh Crescent since the late 1950s and some parts of the proposed subdivision are confirmed to be hazardous activities and industries list sites. This means future remediation work may be required of contaminated sections and it will likely require a site management plan. Council will know more about the extent of contaminated land when the site undergoes the resource consent process.

This may also be the case when looking at the Albert Street Depot as a potential site for housing, due to use of hazardous chemicals on this land for nurseries and other activities.

[6] stormwater-asset-management-plan-april-2021.pdf (pncc.govt.nz)

Infill share includes retirement villages and apartments

Figure 16: Location of hazardous activities and industries list sites at Roxburgh Crescent

6.3.4 Rural/Residential

There has been interest in serviced rural residential sections such as Hartwell Drive and Kingsdale Park; however, it is not sustainable long term to provide serviced rural residential sections as this creates large costs for council to extend infrastructure networks. Extending infrastructure services to rural areas is seen as an inefficient form of infrastructure investment.

Maintaining rural amenity is critical to avoid blurring the line between rural and urban. The District Plan discourages lifestyle blocks and fragmentation of rural land to maintain amenity. The Rural Zone also contains versatile soils and places of local food production. It is important that versatile soils are maintained, as once they are built on, they lose their high productive value. This will become more significant when the proposed National Policy Statement for Highly Productive Land comes into force.

6.4 Infrastructure and development contributions

As the city grows and housing development intensifies, infrastructure must be able to handle extra capacity. Greenfield growth often requires an extension in community infrastructure to service new areas. On the other hand, infill development places pressure on existing infrastructure networks, increasing the risk of failure.

Infill share includes retirement villages and apartments

Development contributions are a tool under the Local Government Act to recover the cost of upkeep and extension of community infrastructure networks. A development contribution is required when a new development occurs, which is then paid by the housing developer or those undertaking the new build. The draft Council Developments Contribution Policy 2021 average general development contributions charge for a new residential lot is $10,758 (effective on 1 July 2021). This is low from a national perspective, despite an average $3,000 increase for residential developments since the 2018 DC policy. This increase is related to significant investment in growth related infrastructure required to support strong projected growth in demand.

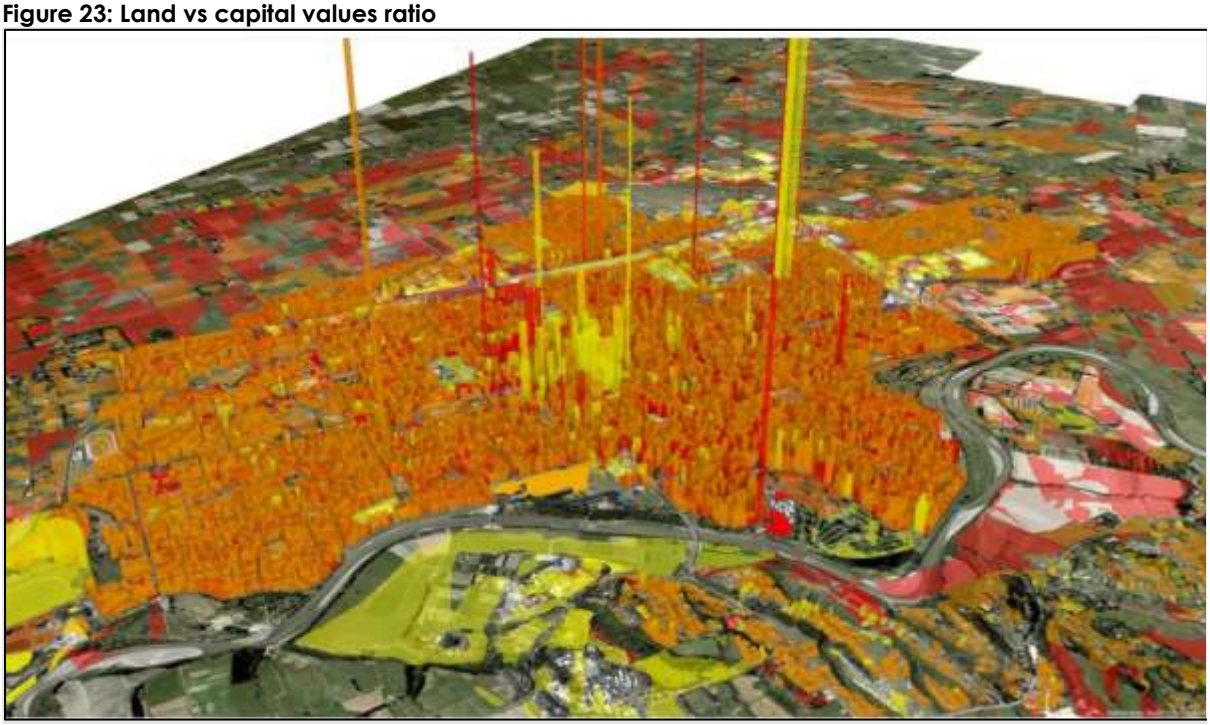
6.5 MBIE Feasible Development Tool

Housing development can be a risky process for developers. The cost to bring land to market needs to be recovered when it is sold, to turn over a sufficient profit. For the development to be worthwhile profit ratios need to be a minimum of 20%. The MBIE feasible development tool can help determine profit maximisation.

The MBIE development feasibility tool has been used by the Council to estimate feasible development capacity for the growth areas listed earlier in this report. This tool indicates how many houses can be built for each growth area, considering key inputs such as time to develop and input costs.

The price to cost ratio was also developed by MBIE to measure the extent to which land value determines the total cost of housing in each urban area. This indicates the extent to which house prices are driven by their construction costs or land costs. Council analysis using the price to cost ratio suggests that most of the existing urban environment is able to support at least one additional residential infill development. This is due to significant land value increases in recent years.

Figure 23: Land vs capital values ratio



Revised estimates using the MBIE development feasibility tool will be produced once September 2021 property valuation data is obtained by council at the end of 2021

Infill share includes retirement villages and apartments

and development constraint assumptions have been reviewed by development experts. The current land valuation data is too out-of-date to be used reliably to assess feasibility. All the major growth areas were assessed in the 2019 HBCA and showed that all areas were feasible to develop, and most were profit maximising.

Infill share includes retirement villages and apartments

7 Housing Analysis

7.1 Constraints

7.1.1 Construction and development industry

Housing developers in Palmerston North generally follow a traditional housing model, which consists of low to medium density housing consisting of 3 or 4 bedrooms. Despite the MBIE feasible development tool indicating in 2019 that higher profit maximisation was possible from building at a higher density, few developers have taken up this option. This impacts on housing affordability, as houses tend to be large in size, only catering for higher income households and limiting market choice. The District Plan has also played a role because developers tend to take conservative permitted baseline approach to development. For example, this includes favouring lot sizes larger than 350m^2 to avoid delays and urban design reviews[7].

The recent Government housing policy intends to encourage the construction of new houses, by making it more difficult to speculators to purchase existing house as rentals for investment purposes. Policy measures introduced include the 10-year bright line test for capital gains tax for construction of new rental housing, while a 5-year period will apply to purchases of existing properties for rental purposes. The policy change seeks to increase housing supply by channelling investment into creating new housing stock. A key constraint on achieving this is the construction industry is at capacity in terms of materials (especially timber) and labour. This has led to increased construction costs and delays due to closed borders. This may mean choosing a new build as an investment option may not be as desirable due to risk of slow construction and additional building costs.

7.1.2 Land values and affordability

NPSUD section 3.23 requires an analysis to be produced by the Council of the housing market and how it impacts planning. This must include local authorities planning decisions and an analysis of affordability and competitiveness of the local housing market.

Data for land values and capital values was obtained from Quotable Value which gave market value estimates for house and land prices in Palmerston North. The QV estimates suggest the average market value for a house in Palmerston North is $687,537 as at April 2021. The lower to upper quartile land and capital values based on sales from 1 March to 30 April 2021 is shown in table 16:

Table 6: Residential land and capital values in Palmerston North - March to April 2021.

Lower Quartile		Median Quartile		Upper Quartile	
Capital Value	$570,000	Capital Value	$660,000	Capital Value	$780,000
Land Value	$310,000	Land Value	$360,000	Land Value	$415,000

Source QV 2021.

Low interest rates, high demand due to strong population growth, lack of supply and increased funding for mortgage lending have led to record growth in house and land prices.

[7] Minimum lot size in PNCC district plan

The Council aims to provide a range of housing option through council land that has been rezoned for housing and through proposals to release more land for housing development. The 2018 changes to the District Plan also favour more intensive housing development.

The City Council Tamakuku Terrace subdivision provides this opportunity (refer to section 4.6.9). The Council has received affordable housing proposals for Tamakuku Terrace from three providers: Homes for People, Te Tihi o Ruahine Whanau Ora Alliance and Te Ranga Maro Charitable Trusts. This also provides opportunity and options to cater for Māori housing needs outlined in section 2.31.

As of May 2021, the new tax changes announced from central government have yet to dampen the market nationally. QV reported that the Manawatu – Whanganui region is still showing strong monthly growth. It is unclear whether the tax changes will slow the growth in house prices, but a market slowdown is predicted. The Council will continue to monitor these changes.

Figure 17: House price index - April 2021.

	Area	Average value	3 mth change
1	Whangarei District	$717,574	10.4%
2	Auckland Region	$1,306,913	8.2%
3	Tauranga City	$992,087	7.8%
4	Hamilton City	$792,772	8.0%
5	Rotorua District	$663,642	6.5%
6	New Plymouth District	$636,439	9.0%
7	Napier City	$798,568	14.2%
8	Hastings District	$797,034	14.0%
9	Palmerston North City	$687,537	10.9%
10	Wellington Region	$983,923	10.8%
11	Nelson City	$765,247	6.3%
12	Marlborough District	$684,954	13.7%
13	Christchurch City	$624,285	9.5%
14	Queenstown Lakes District	$1,383,181	6.1%
15	Dunedin City	$659,447	7.0%
16	Invercargill City	$436,759	9.2%
	New Zealand	$913,209	8.9%

Source: QV 2021.

7.2 Opportunities to support housing affordability

7.2.1 Intensification

As land values increase, subdivision and intensification of land use becomes more financially feasible. Intensification is a more sustainable option for the city due to environmental constraints outlined in the section above. When land values increase as a share of capital values, this makes replacement of ageing housing stock more profitable.

City centre living is also an option provided for in the district plan as a restricted discretionary activity in the inner business zone. Vacancy rates are higher in the city centre and no development contributions are required for conversion of an existing building to residential use in the Inner Business Zone.

Infill share includes retirement villages and apartments

Council will continue to encourage and support intensification as a more sustainable development outcome for housing.

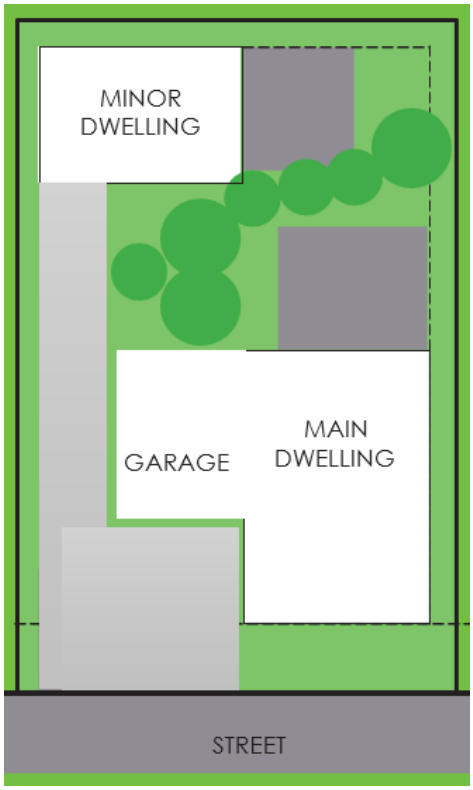
7.2.2 Delivering Change Programme

The Council can assist developers with design advice through its Delivering Change Programme. While the budget is small, it has proven itself to be useful for applicants looking to test options for increasing density and navigating the resource consenting process. The intention of the fund is to facilitate co-creation between Council and applicants. This programme will continue to be promoted to support the development community, which to date has not prioritised resourcing design expertise to assist in complex developments or higher density proposals which trigger urban design considerations. Increased resourcing for this programme will be necessary if growth in multi-unit or complex developments continues.

Minor dwellings

Despite District Plan changes made in 2018 to make it easier to build minor dwellings, uptake has been low. Minor dwellings can be an affordable housing option to meet demand. Minor dwellings provide an opportunity to increase housing supply without a resource consent (if they meet the residential zone permitted activity design standards). They are also an option for those who cannot subdivide their property.

Figure 18: Example of a minor dwelling plan



Minimum lot sizes

Resource consents data shows that there has been an increase in applications for undersized lots (below the 350m^2 minimum lot size). The most common subdivision application is still overwhelmingly for lots greater than 350m^2, as it is more straight forward consenting process and allows the retention of an existing dwelling, which makes bank financing easier to access. Further monitoring of consenting data will be

Infill share includes retirement villages and apartments

undertaken on an annual basis to determine whether a reduction in the minimum lot size is necessary.

Reducing the minimum lot size will increase the supply of more affordable plan-enabled infill opportunities. The same also applies to Ashhurst, where the minimum lot size of 500m^2 is significantly higher than the city. Land values are significantly lower in Ashhurst. Additional growth there could provide greater opportunities for first home buyers and others seeking more affordable options. Given the village character of Ashhurst, aligning the minimum lot size with Palmerston North may not be appropriate. A future Ashhurst focussed plan change provides an opportunity to explore options to reduce the minimum lot size and enable additional affordable housing opportunities to meet strong projected demand, particularly over the next ten years.

Multi-unit housing

Uptake of multi-unit development has been increasing over the past three years, especially by social housing organisations. Feedback from the development community has suggested the consenting pathway for multi-unit housing is time consuming and difficult to navigate. The local development community has not responded well to the design-led approach of the District Plan review. Support is available to assist developers with complex and challenging projects through the Delivering Change budget administered by Council's Senior Urban Designer. The budget is only small but has been helpful in assisting developers in delivering co-created solutions that deliver on the outcomes the community has endorsed through the development of the District Plan. As the District Plan matures, the local development community will need to adjust to regulation and resource the consenting processes appropriately (with design expertise) to uphold the community outcomes sought for multi-unit development. Analysis of the effectiveness of the current District Plan is also underway to consider whether improvements could be made to streamline the consent process and deliver greater certainty to applicants. Initial potential improvements that have been identified include simplifying assessment criteria, introducing design guides, and increasing the minimum height standard to enable three storey development. Creating intensification zones should also be considered. Any new developments in these locations should be required to deliver intensified development, including multi-unit housing.

Urban Design

Urban design plays an important role in the development of housing by creating sustainable and well-functioning environments. As the city's housing intensifies, urban design mitigates the negative effects of intensification From discussions with the development community, internal planning staff and the Senior Urban Designer, there are opportunities to provide more direction in the District Plan to improve development design outcomes in a manner that the development sector can more clearly understand. The development community in Palmerston North will also need to enhance their understanding of urban design to ensure that they can best navigate the consenting pathways for developments that are beyond the permitted standards. The Council's delivering change programme, administered by the Senior Urban Designer, is available to support developers to innovate or deliver unconventional developments.

Infill share includes retirement villages and apartments

7.3 Collaboration with neighbouring councils

Regular discussions between Palmerston North City Council and Manawatu District Council (MDC) have been held regarding housing supply and population growth. This collaboration includes sharing methods for assessing supply, growth strategies and district plan opportunities. The following differences were noted:

- There is poor infill development uptake in Manawatu District urban areas and private landowners show no interest in its uptake. Palmerston North is experiencing the opposite – there is a high demand for infill.
- The Manawatu District suffers from rural fragmentation as rural residential development is desirable by its residents and the district plan does not prevent this. Palmerston North's district plan is restrictive towards lifestyle blocks, which may push people to Manawatu District.
- The average house price in the Manawatu District is $612,858, which is slightly lower than Palmerston North. However, the District is experiencing high increases in house prices.
- The District is also seeing a high growth in the number of new houses built.

The highest share of the City's commuter workforce traffic comes from Manawatu District, as Feilding is the closest minor urban area to Palmerston North. Palmerston North City Council will continue to collaborate in the future and share resources where needed with MDC.

7.4 Assumptions

Based on the findings in this report the following assumptions have been made:

- There is demand for smaller bedroom houses (1-2), based on household projections, and data obtained from social housing register.
- Growth in house prices will continue in Palmerston North, driven by strong employment and population growth.
- Based on population trends and economic data, Palmerston North is growing faster than expected. There has been a strong trend of inward migration to the city and less outflow of city workforce to neighbouring territorial authorities, increasing demand for housing. This means plan changes outlined in this report may need to be brought forward to meet demand.
- Despite the growing rate of building consent for residential builds, this is not enough to keep up with short term demand due to historic under supplying of housing (see section 3.2).
- The average household size is expected to decline in Palmerston North, which could mean more houses may be required in the long term.
- The traditional development model (see section 7.1.1) used by Palmerston North housing developers needs to change as the city grows and intensification is required.
- There is enough supply to meet demand in the short-term, but additional land will need to be rezoned and changes made to intensification controls to meet projected medium- and long-term requirements, including additional 20% and 15% competitive growth margins.

Infill share includes retirement villages and apartments

- Multi-unit development will continue to increase due to developments undertaken by Kainga Ora.

Infill share includes retirement villages and apartments

8 Conclusions

The purpose of this report is to provide an update on the 2019 HBCA to meet statutory requirements under the NPSUD. The findings from this report will inform future Long-Term Plans, the Future Development Strategy, District Plan changes and the 2022 Housing and Business Needs Assessment. The Council has sound and progressive growth strategies that will contribute to the delivery of sustainable and well-functioning urban environments.

A combination of strong growth and past years of under supply is a contributor to the need for more capacity for housing development in the medium and long-terms. In the short-term, Palmerston North has a capacity for the construction of 2,737 homes (1,417 infill and 1,320 greenfield). In the medium and long terms an additional 7,810 greenfield lots will be rezoned.

Further infill subdivision capacity may need to be enabled in the medium-term to enable projected growth demands to be met. However, this will be dependent on the market and whether the traditional infill model of subdividing the front or backyard, while retaining the existing home, is replaced with the more recent trend of removing older housing stock and maximising yield. Should the latter option become more common, there is ample opportunity within the existing urban area to accommodate housing growth for the next 30 years.

Infill and intensification will continue to be promoted as a more sustainable development option. However, as required by the NPSUD, greenfield growth will be provided to meet projected market demand. This demand profile is likely to change over time and future capacity assessments will provide an opportunity to reset targets to meet strategic goals and shifting market preferences as they become known.

Palmerston North housing is still more affordable compared to the national average. This may encourage further inward migration to the city, further increasing demand for housing. If this occurs, upcoming greenfield plan changes will accommodate growth in the medium term. If growth is significantly higher than anticipated eventuates, a greater proportion of growth will likely need to be accommodated in the existing urban area through intensification of housing. Significant rises in land values across the city make this proposition economically feasible to accommodate. Housing data suggests there is a strong market demand for smaller, more intensive housing. However, the local development sector has been slow to meet this need. The Council may need to show some leadership on delivering intensification if the local development sector is unable or unwilling to deliver it.

Infill share includes retirement villages and apartments

9 Housing Recommendations

9.1 Rezoning

To ensure there is enough land for housing to meet demand with projected growth targets and competitive margins, the following recommendations have been made:

- Progress the identified growth area plan changes to provide for medium- and long-term greenfield growth options.
- Provide for a range of section sizes in greenfield growth areas to encourage efficient use of land to meet project demand. This should include provision of multi-unit housing development in all new growth areas.
- Establish the future growth areas as ultimate urban edges for the city, to prevent future sprawl.

9.2 Promote minor dwellings

The following actions are proposed to increase the number of minor dwellings consented:

- Use social media and other forms of publicity to make the community aware that minor dwellings are a permitted activity, if all performance standards are followed.
- Publish the minor dwelling booklet on the Council website and make it available in the libraries and Customer Services Centre.

9.3 Undertake council owned housing development and investigate opportunities to repurpose reserves for housing

Council can demonstrate development of affordable housing through council-led housing developments at Huia Street or Summerhays Street. This provides an opportunity to encourage private housing developers to shift towards a more sustainable form of housing, through intensification and to move away from the traditional large stand-alone housing development model.

Investigations should also be undertaken to determine whether under-utilised reserves, including sports fields, could be partially or fully repurposed for housing.

9.4 Develop partnerships

Council will continue maintaining relationships with the development community and owners of land that has potential for housing development. However, the Council has identified opportunities to take this relationship further, by developing partnerships with housing developers to produce affordable housing options. It is recommended that partnerships can be developed by:

- Partnering with iwi and social housing providers.
- Sharing budgets and resources i.e. council land and private land in partnership with housing providers.
- Investigate a development model that allows high quality, affordable homes to be built with collaboration between the Council, community stakeholders, construction industries and housing developers.

Infill share includes retirement villages and apartments

9.5 Promote and enable intensification in more locations

Intensification could be further encouraged through:

- Creating an urban design guide to support housing intensification.
- Considering reducing the minimum lot size from 350m^2 in the Palmerston North residential zone and down from 500m^2 in Ashhurst.
- Improving stormwater regulation in the District Plan, especially with infill development and/or invest in stormwater infrastructure upgrades.
- Considering creating multi-unit housing zones, making it compulsory to build multi-unit in particular areas.
- Reducing complexity for multi-unit housing developments by simplifying the assessment criteria and making rules clearer.
- Upskilling developers in urban design requirements through facilitated workshops.

Intensification needs to be supported by integrated transport corridors to increase walkability and sustainable transport options to reduce congestion. It is recommended that the Council continues to work closely with Horizons Regional Council on the urban bus network to ensure it aligns with city growth. Provision of active transport infrastructure should also be facilitated by Council to support intensification. This includes delivering the Urban Cycle Masterplan and Innovating Streets programme to make investment in intensification more attractive and viable.

9.6 Restrict land banking

The current rating policy incentivises developers with large landholdings to slowly release land for development. A discounted rate is applied to developable land that is greater than 5 hectares. For example, a 10-hectare block is charged the full residential rate for half of the 10-hectare block. Applying full residential rating to land that is zoned and serviceable may encourage land to be released faster.

Infill share includes retirement villages and apartments