



National Policy Statement on Urban Development Capacity
Nelson-Tasman Monitoring Report April-June 2017



November 2017

Summary

The National Policy Statement on Urban Development Capacity requires local authorities within a Medium or High Growth Area to ensure they are well-informed about urban development activity by monitoring property market indicators on a quarterly basis.

The most recent Statistics New Zealand population projections for Main Urban Areas (September 2017) confirm that Nelson/Tasman Main Urban Area remains medium growth at 9.95% between 2013 and 2023.

This is the second of quarterly monitoring reports which Nelson and Tasman officers are preparing jointly to report to both Nelson City and Tasman District Councils and covers the period April-June 2017. The indicators that are monitored in this report are population growth, affordability of housing (including building costs and social housing need), house prices and rents, new sections created, building consents for both housing and business, and resource consents for housing and business.

The current trends in Nelson and Tasman can be summarised as follows:

- Local authority population projections: Between 2018 and 2043 the population of Nelson and Tasman combined is projected to grow by 11,000 residents under Statistics NZ medium series projections, to reach 114,000, or by 25,000 residents under the high series projections¹, to reach 130,000. Based on both the medium and high projections, the total population would continue to be almost evenly split between Nelson and Tasman.
- Main Urban Area growth: projected demand for an additional 7,300 dwellings between 2018 and 2043 (refer to page 4 for a definition of the Nelson/Tasman Main Urban Area):
 - Tasman District **Council's growth** demand and supply model has assumed the high series projections for Richmond/Hope for the first 10 years and medium series projections thereafter. Based on that assumption, Richmond/Hope is projected to grow by 2,000 people or approximately 1,600 dwellings between 2018 and 2043, with growth of 900 dwellings expected in the first ten years. **Approximately 30% of Tasman's population is in Richmond/Hope.**
 - Nelson City Council is also planning for growth under the high series projections for the first ten years and the medium series thereafter, with the population of the Nelson portion of the Main Urban Area projected to grow by almost 8,800 people between 2018 and 2043, with demand for another 5,700 dwellings over that time.
- Dwelling provision: A comparison of estimated household growth and building consents for new dwellings indicates a recent under-supply of new dwellings when the Nelson-Tasman regions are combined.
- House prices: increased across the combined Nelson-Tasman regions by 13% during the year ended June 2017, compared with a 12% increase in the previous year. Both Districts experienced similar trends in prices.
- House rents: also generally increasing over time but at a slower rate than prices.

¹ Statistics NZ's medium series projections assume medium fertility, medium mortality and medium migration. The high series projections assume high fertility, low mortality and high migration.

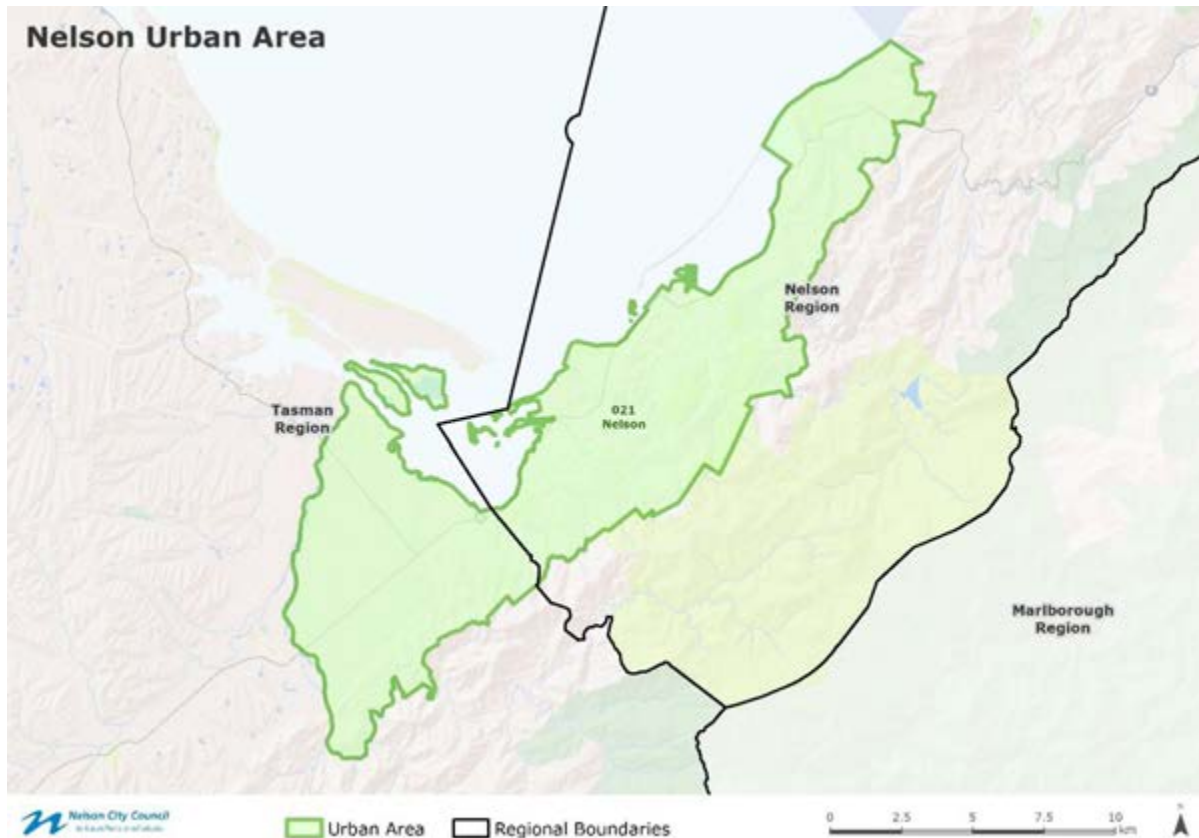
- **Affordability: According to MBIE’s housing affordability measure, as at March 2016,** the majority of rental households in Nelson and Tasman could not comfortably afford the cost of purchasing a house in the typical first-home price bracket², and two-thirds of those household could also not comfortably afford typical rents in both districts.
- Other affordability indices (Massey University aggregate housing affordability index) (June 2017) show that the Nelson-Tasman-Marlborough regional cluster continues to experience affordability challenges. Based on this index the region remains the third least affordable region in the country behind Central Otago Lakes and Auckland.
- **Social housing need:** Since June 2016 applicants waiting on the Ministry for Social **Development’s social** housing register have grown by 120% for Nelson and 178% for Tasman.
- **Building costs:** Nationally **construction costs are increasing and QV’s “costbuilder”** reports average increases of 1.2% for residential buildings nationally, between Q1 2017 and Q3 2017.
- **New sections created:** There were 250 new sections created in the Nelson/Tasman Main Urban Area in the year ended June 2017, compared with 239 in the previous year.
- The number of new residential sections being created in Nelson in the last quarter were lower than average, but still resulted in an increase on a 12-month basis.
- Unusually for Richmond there were no residential sections created in this quarter.
- On the 14th August 2017 an Order in Council was gazetted for 8 Special Housing Areas within Tasman District. These will be expected to yield a minimum of over 1200 lots in due course, the vast majority of which would be within the Nelson/Tasman Main Urban Area.
- On the 14th August 2017 an Order in Council was gazetted for 12 Special Housing Areas within the Nelson City Council part of the Nelson Main Urban Area. These will be expected to yield 305 residential units.
- In Tasman, building consents have continued to outstrip the creation of titles over the past year, meaning that vacant titles are being taken up faster than new titles are being created. However supply of lots is expected to increase significantly in the next 12-18 months based on developments consented or under construction.
- **Building consents:** District wide and on an annual basis, Tasman continues to have record numbers of building consents issued when compared over the 10 year period. Within Richmond these are remaining high.
- On an annual basis, consents for new dwellings in Nelson have started to increase.
- Further investigation is required of the other factors affecting the supply of affordable homes in Nelson and Tasman. These barriers may include land banking, lending rules, construction industry **capacity constraints, the market’s limited provision** of smaller houses and the contribution of holiday homes and impact on permanent rental stock.
- **Business activity:** Commercial and industrial building activity in the Nelson/Tasman Main Urban Area has been relatively stable since 2010 but spiked in the previous two quarters in Nelson due to consents for two new unusually large buildings at the Port and Airport.

² MBIE’s Housing affordability measure (HAM) has proved controversial with the Reserve Bank criticising the model for using incorrect interest rates that could make houses look more affordable. MBIE will be incorporating the Reserve Bank recommendations in a later release of the HAM data.

Nelson/Tasman Main Urban Area

The “Nelson/Tasman Main Urban Area”, as defined by Statistics New Zealand’s classification of urban areas includes most of Nelson City’s area and the following area units in Tasman - Richmond East and West, Aniseed Hill, Bell Island, Best Island, Hope and Ranzau. Some of the monitoring contained within this report relates to data covering the whole of both Territorial Authorities and some relates to the Nelson/Tasman Main Urban Area only, due to the nature of the source data. Figure 1 shows the boundary of the Nelson/Tasman Main Urban Area in relation to the local authority boundaries.

Figure 1: Nelson/Tasman Main Urban Area



Statistics New Zealand completed its progressive update of population projections for urban areas in September 2017. For the Nelson/Tasman Main Urban Area this concluded that population growth forecast between 2013-2023 has risen to 9.95%, as compared with 8.5% in 2016.³ This means the Nelson/Tasman Main Urban Area is still classified as ‘medium growth’, according to the NPS, falling just below the 10% **threshold defining ‘high growth’** urban areas.

The Ministry of Business, Innovation, and Employment (MBIE) and the Ministry for the Environment’s (MfE) dashboard of data, which this report partly relies on is updated approximately 8 weeks after the quarter ends, hence the reports will lag on this basis.

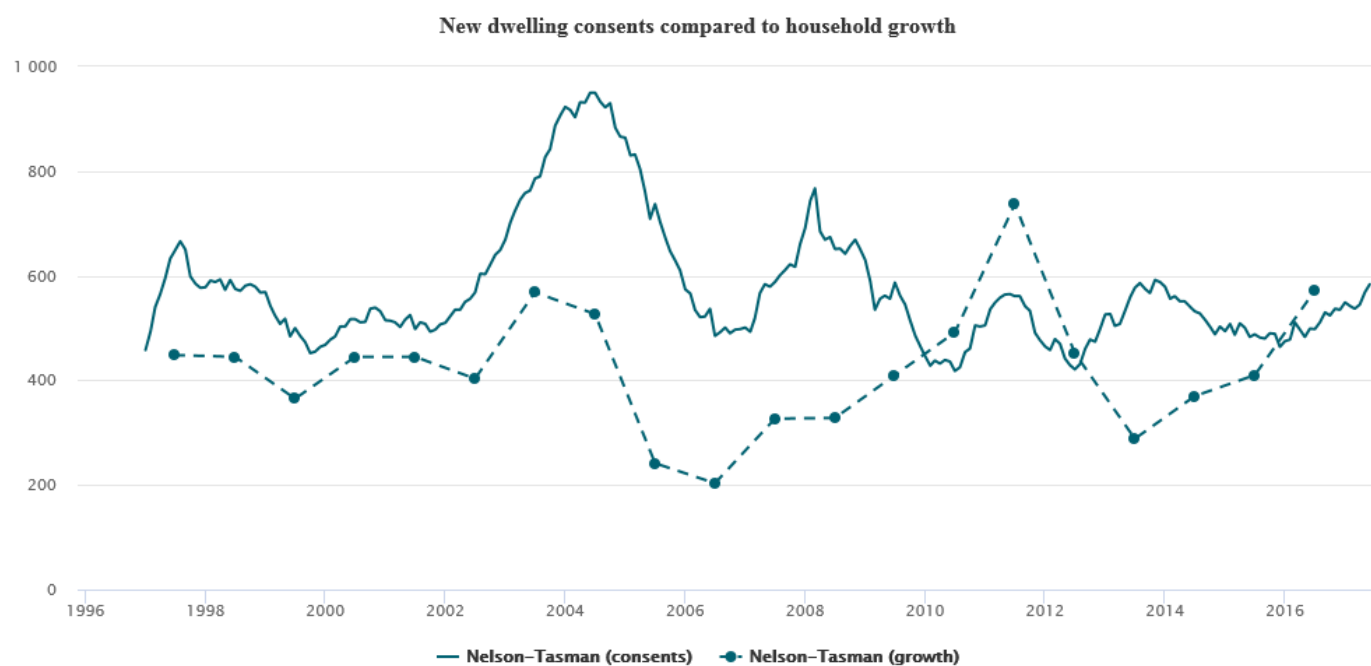
³ Source – Proposed National Policy Statement on Urban Development Capacity Consultation Document, MfE & MBIE (2016) National Policy Statement on Urban Development Capacity Nelson-Tasman Monitoring Report April-June 2017

Residential Development Trends

MBIE/MfE data

The MBIE and MfE have provided local authorities with a range of market indicators that local authorities are required to monitor under policy PB6 of the National Policy Statement – Urban Development Capacity. At this stage, the data includes only some housing indicators, with more to follow.

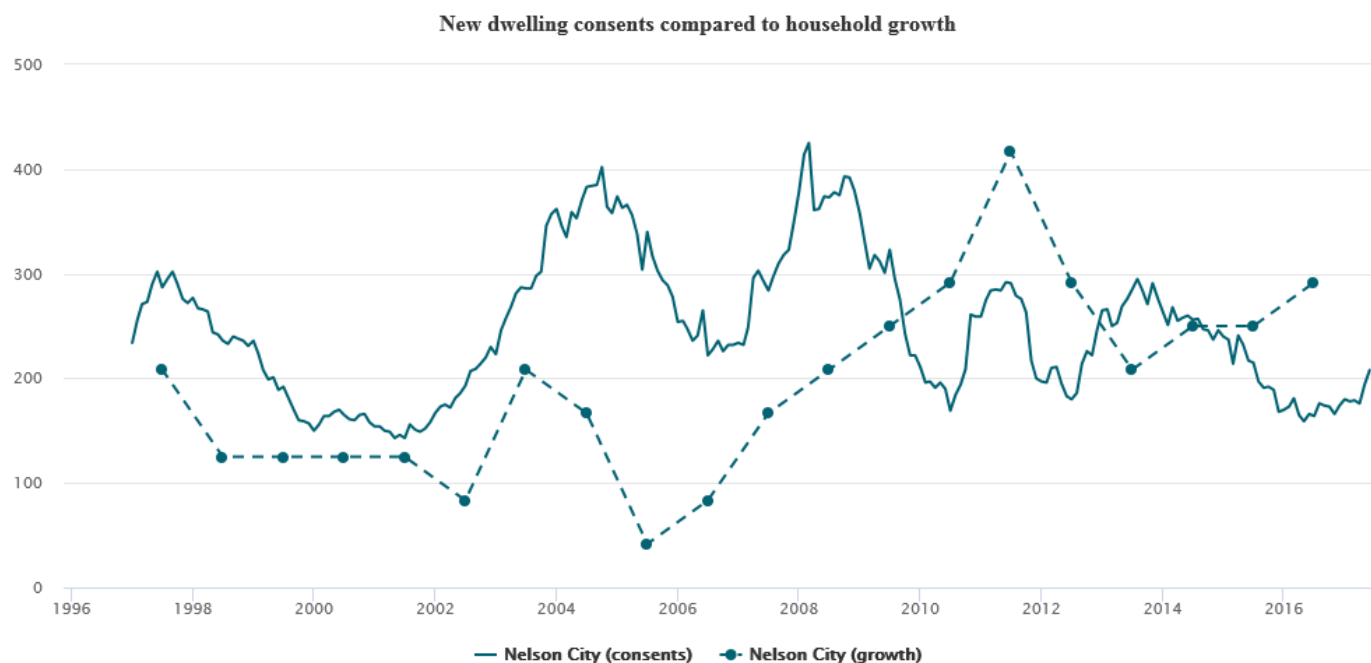
1. Demand and Supply



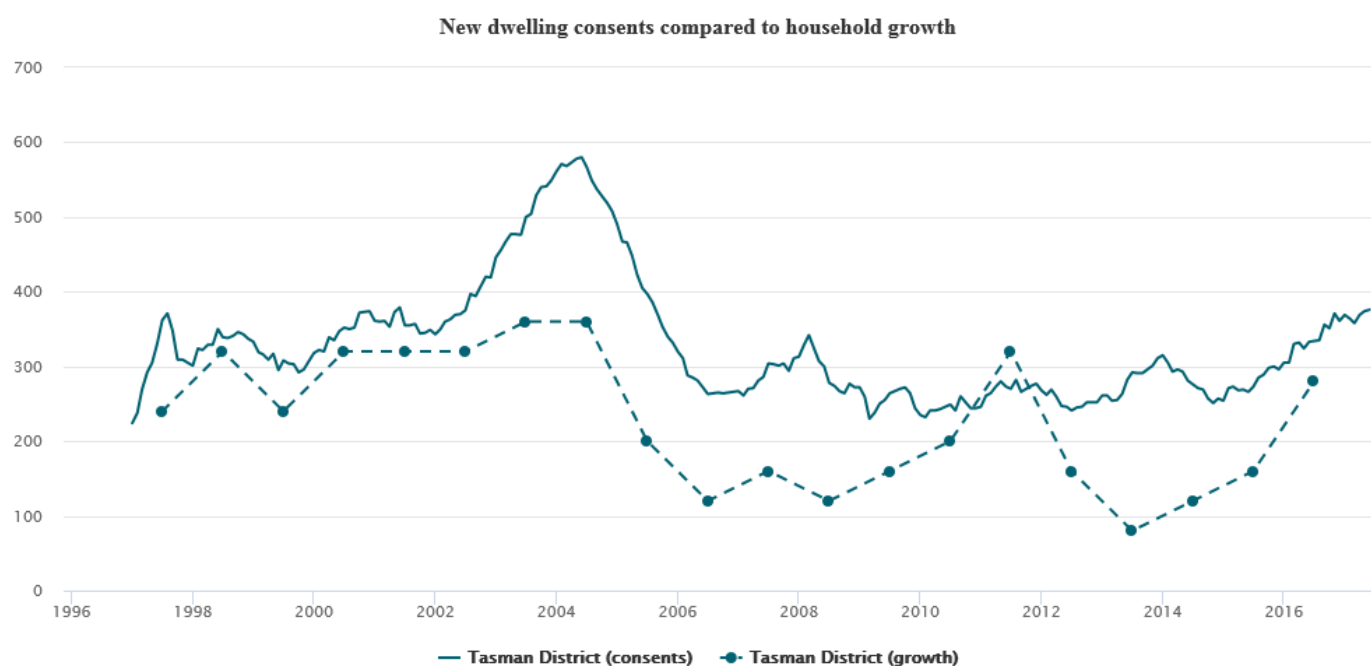
Graph 1. New dwelling consents compared to household growth – Nelson-Tasman Regions Combined.

Over the last two decades, Nelson and Tasman have generally had enough new housing to meet household growth. However, in the last few years, consents for new dwellings in Nelson do not appear to be keeping up with population growth. Despite Tasman’s growth in new dwellings exceeding household growth in the region, an apparent overall under-supply in the combined Nelson-Tasman market could be one contributor to the increase in house prices in the last year. In reality there are number of market dynamics involved that affect the supply of affordable housing, including cost of infrastructure, financing packages for low income home owners, the market’s limited provision of smaller housing, timing of release of land by owners, and building costs.

The following chart indicates there has been an apparent under-supply in housing in Nelson, while consents for new dwellings in Tasman have continued to exceed the estimated growth in new households.



Graph 2. New dwelling consents compared to household growth – Nelson City



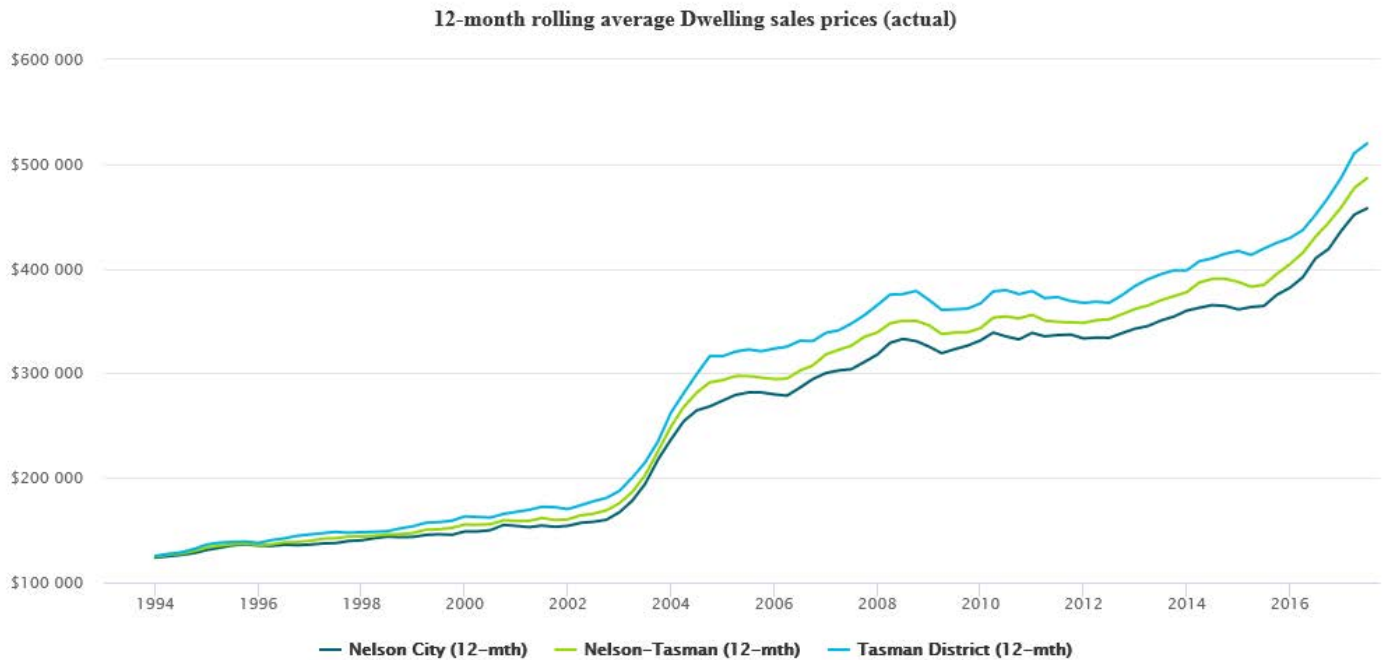
Graph 3. New dwelling consents compared to household growth – Tasman District

Household growth is the estimated number of new households and is calculated from the estimated resident population, divided by the local average housing size. The actual resident population and household numbers will be confirmed by the 2018 Census. Previous Census results have revised Nelson's population estimates by +/- 4% and Tasman's by +/- 2%.

MBIE/MfE's supply estimates use the number of new dwelling consents lagged by six months to account for the time taken from consenting to completion (presented as a 12 month rolling average).

The apparent shortage of new housing in Nelson is despite an estimated eight years' worth of dwelling capacity on land which is zoned, serviced or planned to be serviced, and feasible for residential development.

2. Prices and rents



Graph 4: Dwelling sales prices – actual, rolling average, Nelson-Tasman combined, Nelson City, Tasman District

Housing prices have increased over time in both Nelson and Tasman Districts. The median sale price for the year ended June 2017 was \$457,777 in Nelson and \$519,753 in Tasman.

Across the combined Nelson-Tasman Districts area, prices increased 13% during the year ended June 2017, compared with a 12% increase in the year ended June 2016, and a 1% decrease in prices in the year ended June 2015. Nelson and Tasman experienced similar trends in house prices.

Increasing prices in Tasman, despite an apparent over-supply in Tasman relative to household growth, could be due to several factors:

- meeting some of the demand from the growth in Nelson households
- increasing demand for visitor/non-resident accommodation
- an upsurge in people from other regions who are purchasing investment properties or moving to the region
- land banking

Future reports will investigate these factors in more detail with the use of additional indicators.



Graph 5: Dwelling rents – actual, rolling average, Nelson-Tasman combined, Nelson City, Tasman District

Residential rents have also generally been increasing over time, but at a slower rate than house prices. This increase may suggest that there is a shortfall in housing which is also affecting the rental market.

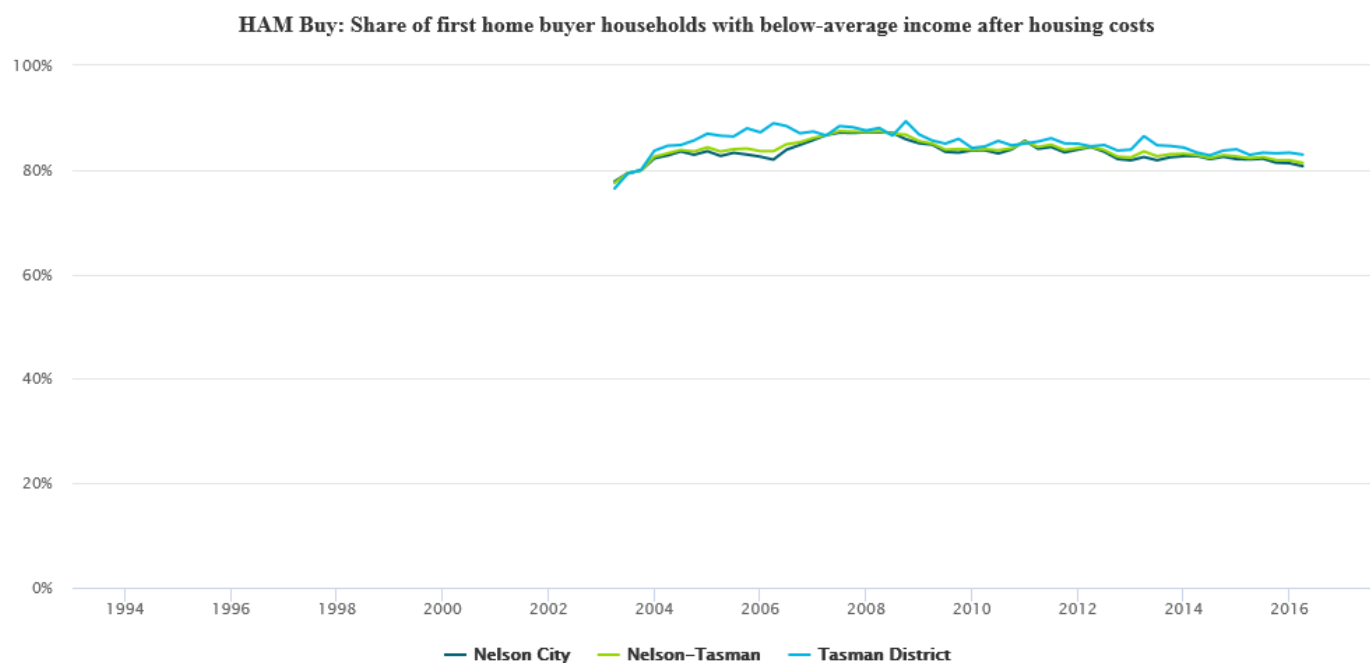
Other factors, such as the availability and cost of mortgage finance, may also affect the price that people are willing and able to pay for a home without directly increasing rents.

3. Housing affordability

MBIE have provided two Housing Affordability Measures (HAM), HAM Buy and HAM Rent, to measure trends in affordability of house prices and rents relative to income. These are initially being released as an experimental statistical series and MBIE advises that users should exercise caution given the draft state of the measure. The HAM uses data on household incomes of rental households, house prices, and rents. The HAM is designed to map shifts in affordability over time, showing whether there are more or fewer households that have more or less income left over after paying for their housing costs.

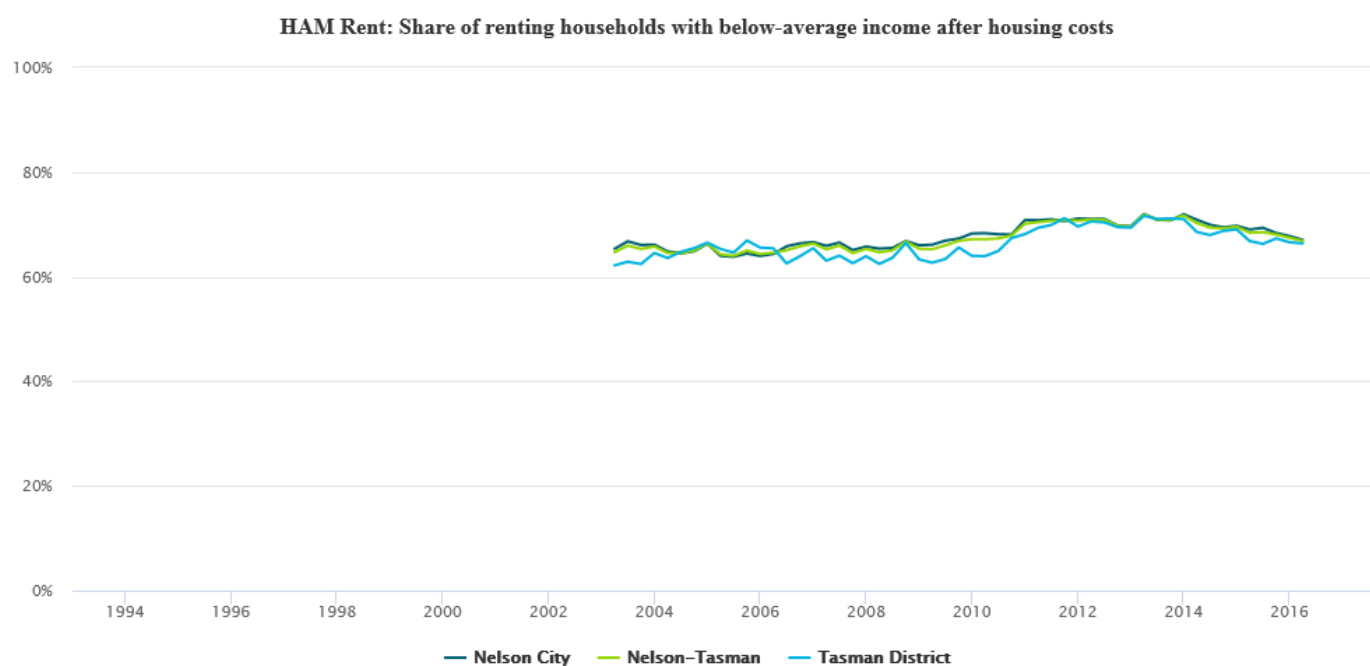
For potential home-owning households, HAM Buy calculates what their residual income would be after housing costs if they were to buy a modest first home in the area in which they currently live. Their residual income is compared to a 2013 affordability benchmark (the median residual income, adjusted for inflation and household size). Households are classified as being either above or below the affordability benchmark. A higher number on the chart indicates a higher proportion of households that would have less than that benchmark amount left over after mortgage payments on a lower-quartile house, and therefore the less affordable is the housing.

The HAM Rent measure calculates the residual income of renting households would be after rental housing costs and compares that against the 2013 affordability benchmark. Again, a higher number on the chart indicates a lower level of affordability.



Graph 6: HAM Buy: Share of first-home buyer households below the affordability benchmark, Nelson-Tasman combined, Nelson City, Tasman District

The HAM Buy measure for Nelson and Tasman Districts suggests that housing affordability was at its worst in 2007/2008, with around 88% of first home buyer households below the 2013 national benchmark of affordability. Since then, the measure has been at least 80% for both districts. The measure indicates that at March 2016, 81% of first-home buyer households in Nelson, and 83% for Tasman, could not comfortably afford a typical 'first-home' priced house. This is defined as the lower quartile price point of housing in the area.



Graph 7: HAM Rent: Share of renting households below the affordability benchmark, Nelson-Tasman combined, Nelson City, Tasman District

The HAM Rent measure for Nelson and Tasman Districts suggests that rental affordability worsened between 2004 and 2014 but has improved in both regions since then. The measure indicates that at March 2016, 67% of rental households in Nelson, and 66% for Tasman, cannot comfortably afford typical rents, being below the 2013 national affordability benchmark.

Nationally, construction costs are increasing⁴ due to high levels of construction activity and capacity constraints. This may indicate that the local construction industry is capacity-constrained and facing challenges scaling up to build more homes in response to demand. Building costs represent the single largest cost component when building a house, at around 50% and these costs are currently rising.

“QV Costbuilder” provides a comprehensive reference to NZ building costs. The rates provided for residential buildings exclude local authority fees, external works and utilities. They are also based on flat sites and an addition would need to be made for sloping sites. The material prices for the rates are obtained from more than 70 different trade suppliers. The data is updated twice a year and data for Q3 2017 finds average increases of 1.2% for residential buildings since Q1 2017.

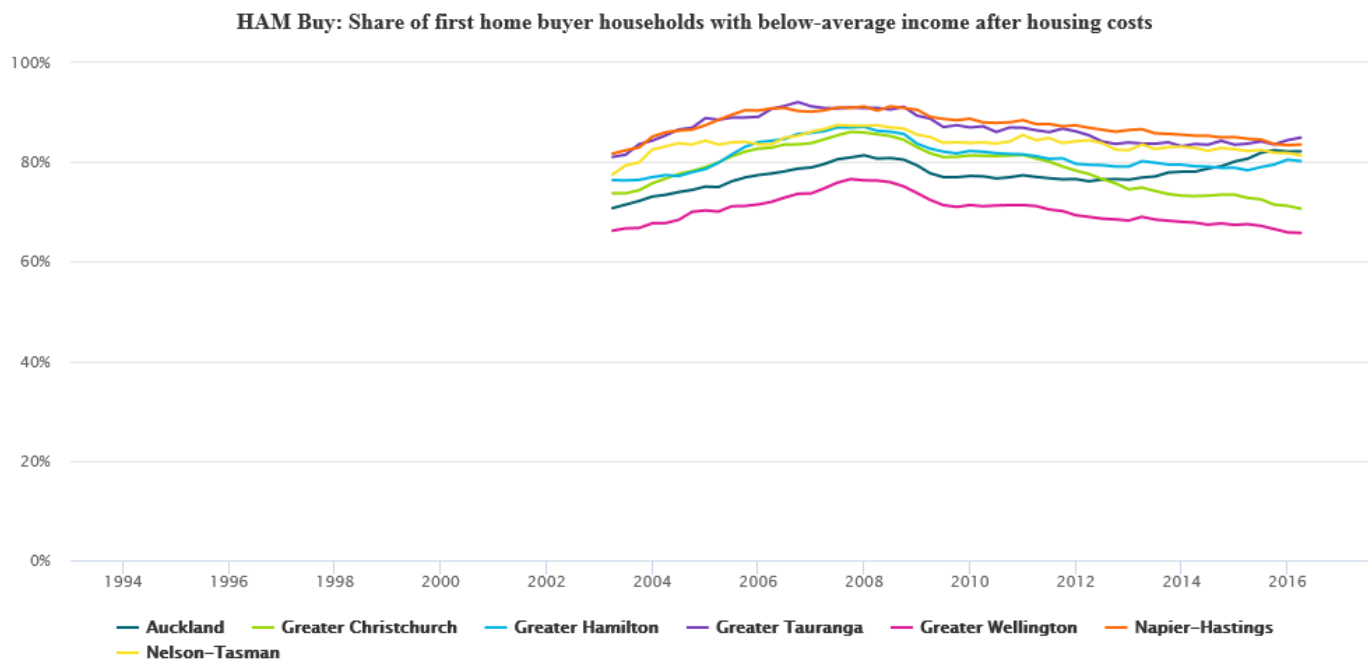
Building costs for one storey houses in Christchurch (nearest geographical region) in Q3 2017 range from \$1,625-1,825 / sq m for 90-130 sq m properties; and \$1,875-2,075 / sq m for 100-250 sq m properties.

Building costs for two storey houses in Christchurch in Q3 2017 range from \$2,000-2,400/sq m for 150-300 sq m properties; and \$2,650-3,650 / sq m for 200-350 sq m properties.

⁴ <http://www.stuff.co.nz/business/89470174/Construction-costs-rising-as-peak-approaches-RLB>

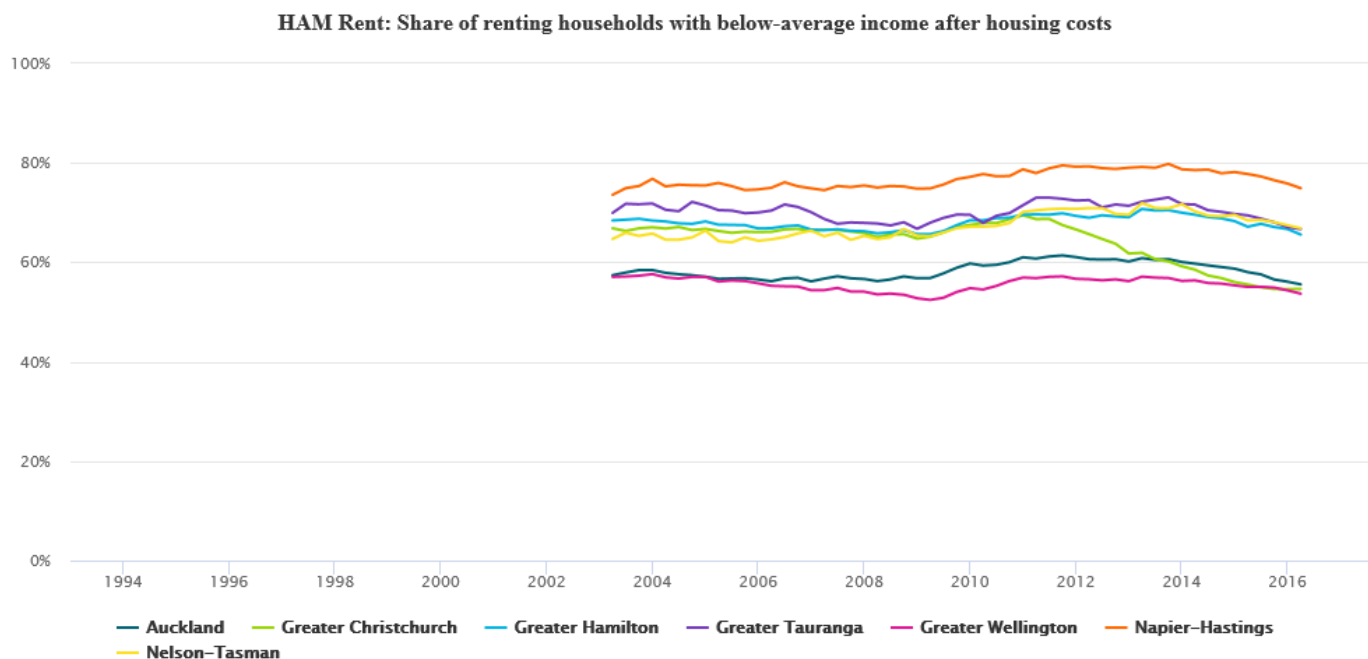
<http://www.stuff.co.nz/business/property/92322694/construction-costs-continue-to-rise-in-2017-colliers>

Benchmarking with other Expanded Urban Areas



Graph 8: HAM Buy: Share of first-home buyer households below the affordability benchmark, Expanded Urban Areas

Comparing affordability across a number of expanded Main Urban Areas shows that affordability got worse throughout New Zealand in the years leading up the Global Financial Crisis but has been relatively stable since then. However, housing affordability in Nelson/Tasman is at a similar level to Auckland and Hamilton, but is worse than in Christchurch and Wellington.



Graph 9: HAM Rent: Share of renting households below the affordability benchmark, Expanded Urban Areas

Rental affordability in Nelson/Tasman is at a similar level to Tauranga and Hamilton but is worse than in Auckland, Wellington and Christchurch.

Massey University aggregate housing affordability index

| HOME AFFORDABILITY INDEX | Region | Feb 2017 | May 2017 | PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS | | PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS | |
|--------------------------|-----------------------|----------|----------|---|---------|--|---------|
| | | | | Improvement | Decline | Improvement | Decline |
| | Northland | 21.64 | 23.57 | - | 32.0% | - | 8.9% |
| | Auckland | 34.81 | 36.38 | - | 5.4% | - | 4.5% |
| | Waikato/Bay of Plenty | 22.13 | 23.86 | - | 17.5% | - | 7.8% |
| | Hawke's Bay | 17.01 | 18.20 | - | 23.6% | - | 7.0% |
| | Taranaki | 14.12 | 15.03 | - | 4.6% | - | 6.5% |
| | Manawatu/Whanganui | 12.54 | 13.32 | - | 15.7% | - | 6.2% |
| | Wellington | 21.42 | 21.76 | - | 15.3% | - | 1.6% |
| | Nelson/Marlborough | 22.15 | 24.26 | - | 23.2% | - | 9.5% |
| | Canterbury/Westland | 19.78 | 19.94 | 0.5% | - | - | 0.8% |
| | Otago | 15.89 | 15.59 | - | 14.8% | 1.9% | - |
| | Central Otago Lakes | 37.72 | 41.68 | - | 10.5% | - | 10.5% |
| | Southland | 10.29 | 11.71 | - | 16.9% | - | 13.7% |
| | New Zealand | 22.40 | 24.55 | - | 8.2% | - | 9.6% |

The Massey University aggregate housing affordability index (June 2017) shows that the Nelson-Tasman-Marlborough regional cluster continues to experience affordability challenges. Nine regions surpass Auckland/Thames/Coromandel annual price increase (3.7%) and Nelson/Marlborough/Kaikoura is one of these at 21.8%. The index this quarter shows a 23.2% decline in home affordability in the last 12 months in Nelson/Marlborough - markedly different to the 0.6% improvement in the last report (March 2017). This compares with a **8.2% decline in the last year nationally**. The significant change in trend from Massey's last quarter report could be explained by the unusual high prices sustained during the autumn/winter months in Nelson and Tasman this year. Based on this index the region remains again the third least affordable region in the country behind Central Otago Lakes and Auckland.

As with the HAM, the Massey Home Affordability Index also takes into account the cost of borrowing as well as house prices and wage levels. The mortgage interest rate figures are drawn from Reserve Bank data and for this quarter a 2 year fixed rate of 5.27% was used. Unlike the HAM measure, the income data is for both renting and owner-occupier households. Housing prices are released by the Real Estate Institute of New Zealand (REINZ).

The combination of this data provides the opportunity to calculate a reliable and useful summary index. The lower the index the more affordable the housing. The index allows for comparisons over time and between regions of relative housing affordability in New Zealand.

Social housing need

The Ministry for Social Development administers the Social housing register and as at June 2017 this shows for Nelson there are 55 applicants waiting on the register and for Tasman there are 39 applicants. These figures have grown respectively since June 2016 by 120% and **178%**. **Priority A applicants are people considered 'at risk' and includes severe and persistent housing need that must be addressed immediately.** In Nelson 26 of the 55 applicants are priority A and in Tasman 24 of the 39 applicants are priority A. According to the social housing register, demand for housing in Nelson and Tasman is largely for 1 and 2 bedroom dwellings.

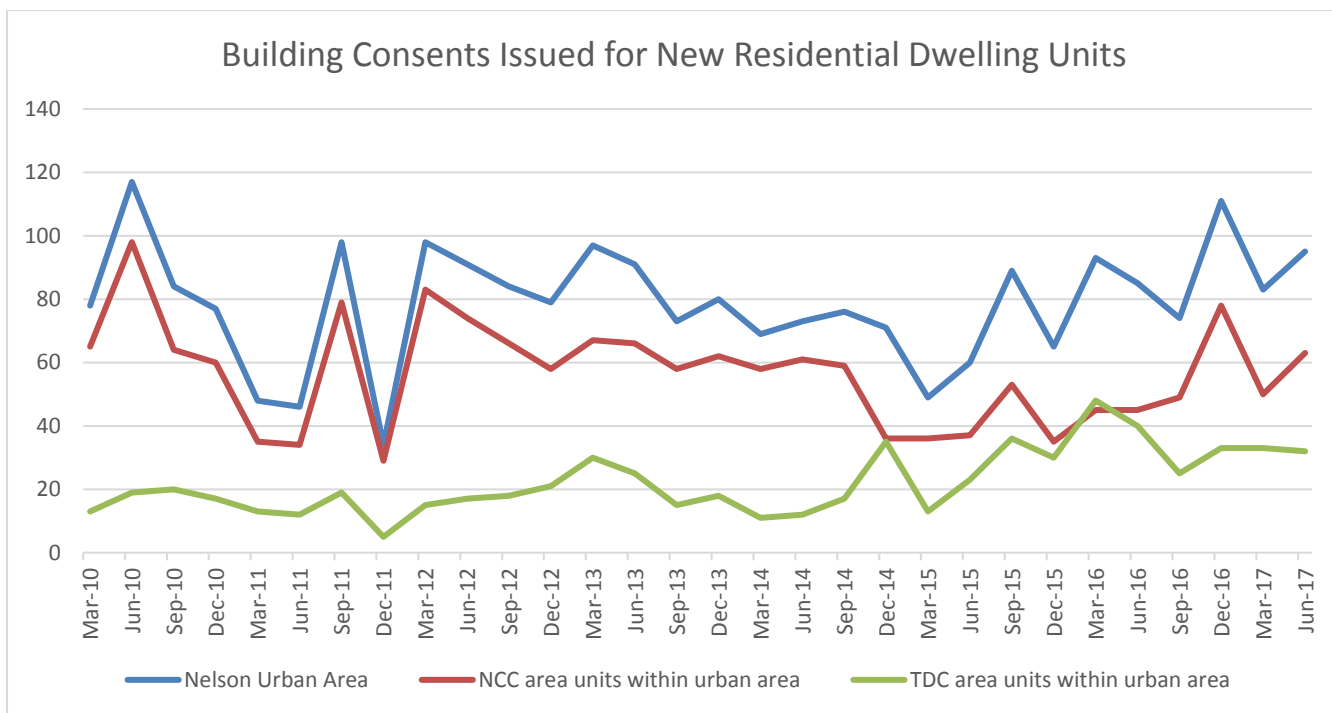
Council data

In addition to the MBIE data, both Nelson and Tasman councils have additional data on residential development trends which can provide further detail on the type and location of development. The following measures are for the parts of Nelson and Tasman that are within the Nelson/Tasman Main Urban Area.

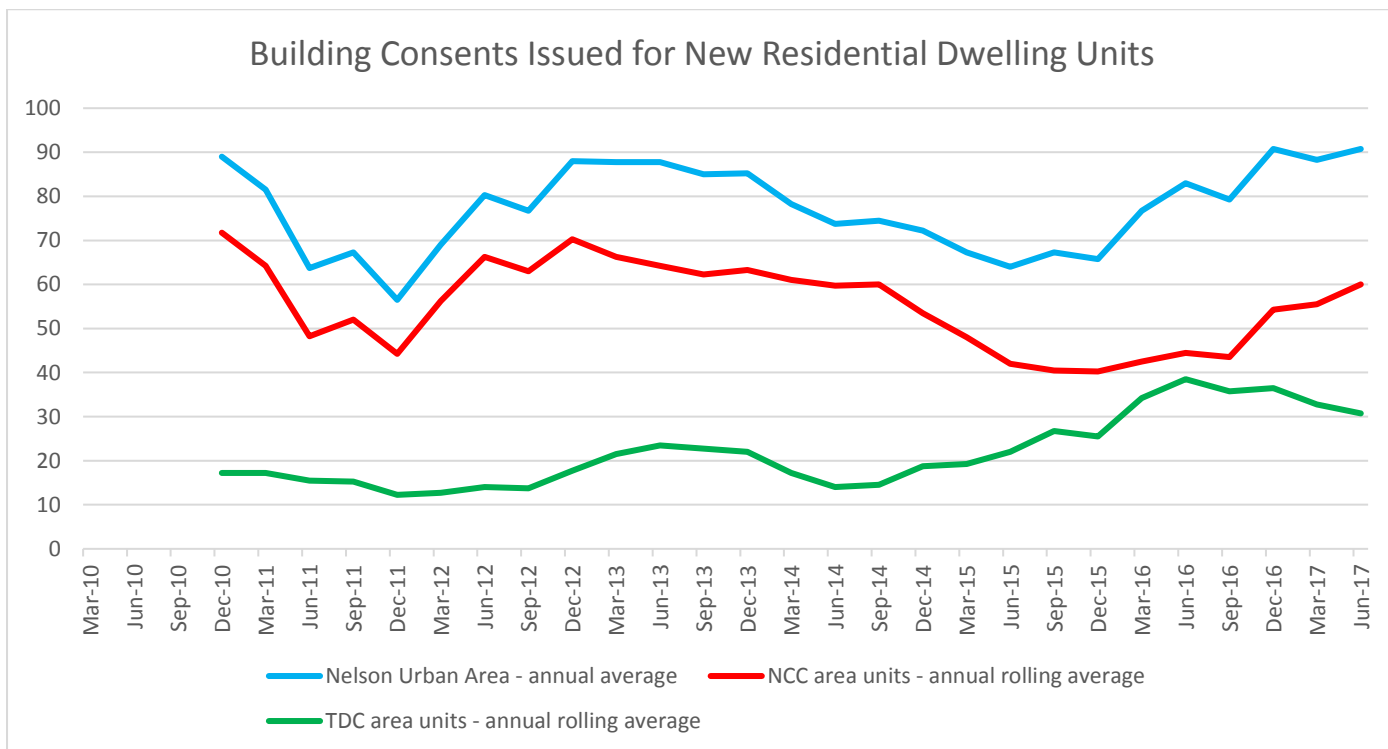
4. Building Consents Issued – Number of new dwelling units

| | Quarter | | | | | |
|---------------------------------------|------------|-----------|----------------|---------------|------------|-----------|
| | March 2016 | June 2016 | September 2016 | December 2016 | March 2017 | June 2017 |
| Nelson/Tasman Main Urban Area | 93 | 85 | 74 | 111 | 83 | 95 |
| NCC area units within Main Urban Area | 45 | 45 | 49 | 78 | 50 | 63 |
| TDC area units within Main Urban Area | 48 | 40 | 25 | 33 | 33 | 32 |
| NCC – all District | 45 | 46 | 50 | 79 | 51 | 63 |
| TDC – all District | 95 | 97 | 97 | 101 | 83 | 100 |

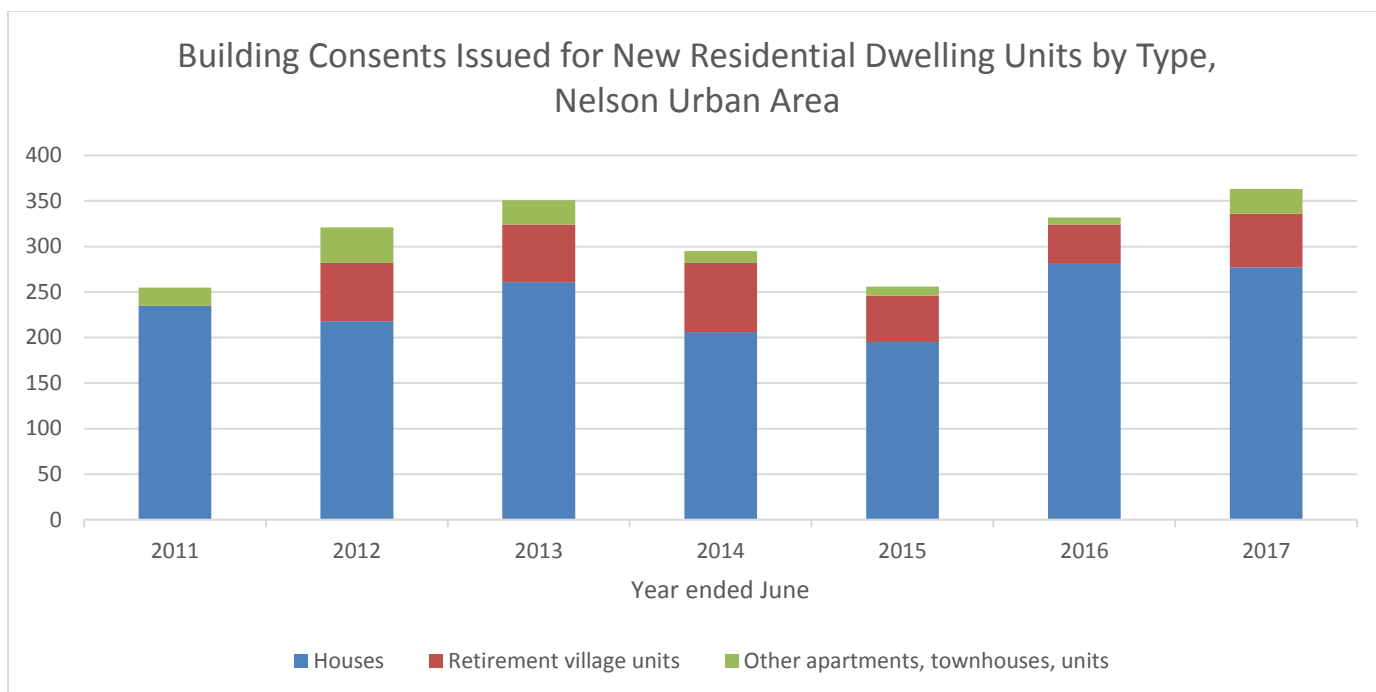
Table 1. Building consents for new dwellings, actual numbers (Statistics New Zealand)



The following graph shows a rolling 12-month average of building consents for new dwellings which removes seasonal fluctuations. This indicates that consents for new residential dwellings in Nelson are starting to increase, while consents for new dwellings in Richmond/Hope are currently stabilising. However numbers of building consents are expected to increase in the next 12-18 months based on anticipated developments. In addition on the 14th August 2017 an Order in Council was gazetted for 8 Special Housing Areas within Tasman District. These will be expected to yield a minimum of over 1200 lots in due course. Within Tasman District as a whole, building consents continue to exceed those of 2016.



Building Consents Issued – Types and size of dwellings



The majority of new dwellings in the Nelson/Tasman Main Urban Area continue to be separate houses while 16% were retirement village units in the last year.

The average size of new houses in the Nelson/Tasman Main Urban Area in the last year was 199m².

5. Yield of serviced residential sites from residential zoned land

On an annual basis, there were 250 new sections created in the Nelson/Tasman Main Urban Area in the year ended June 2017, compared with 239 in the previous year.

Numbers of new sections can vary significantly between quarters, as it is a relatively short period of time to measure.

Nelson has seen 28 sections created in the June 2017 quarter which is lower than the average for the last two years. However, on a 12-month basis, there were 158 sections created in the year ending June 2017, compared with 125 in the previous year.

Tasman's figures represent the area units which fall within the Nelson/Tasman Main Urban Area only which essentially are Richmond and Hope. Unusually there were no titles created in **Richmond for this quarter. However based on Council's growth modelling and knowledge of** forthcoming developments over the next 12-18 months this is expected to show much greater activity in subsequent quarters.

| | Quarter | | | | | | | June -17 |
|---------------------------------------|---------|--------|--------|--------|--------|--------|--------|----------|
| | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | |
| NCC area units within Main Urban Area | 36 | 13 | 44 | 32 | 53 | 4 | 73 | 28 |

| | | | | | |
|---------------------------------------|---------------------------------|----------------------------------|---------------------------------|------------------|-----------------|
| TDC area units within Main Urban Area | Jul 15 –Dec 15 87 (Richmond) | Jan 16 – Jul 16 24 (Richmond) | Jul 16- Dec 16 29 (Richmond) | 63 (Richmond) | 0 (Richmond) |
|---------------------------------------|---------------------------------|----------------------------------|---------------------------------|------------------|-----------------|

| | | |
|-------------------------------|----------------------|----------------------|
| | Year ended June 2016 | Year ended June 2017 |
| Nelson/Tasman Main Urban Area | 236 | 250 |

6. Resource Consents for residential units

NCC: In the June 2017 quarter, there were nine resource consents for residential subdivisions, including one for a Special Housing Area (SHA). These consents were to create 149 new residential lots, of which 60 were in a SHA at 257 Waimea Road (Bishopdale).

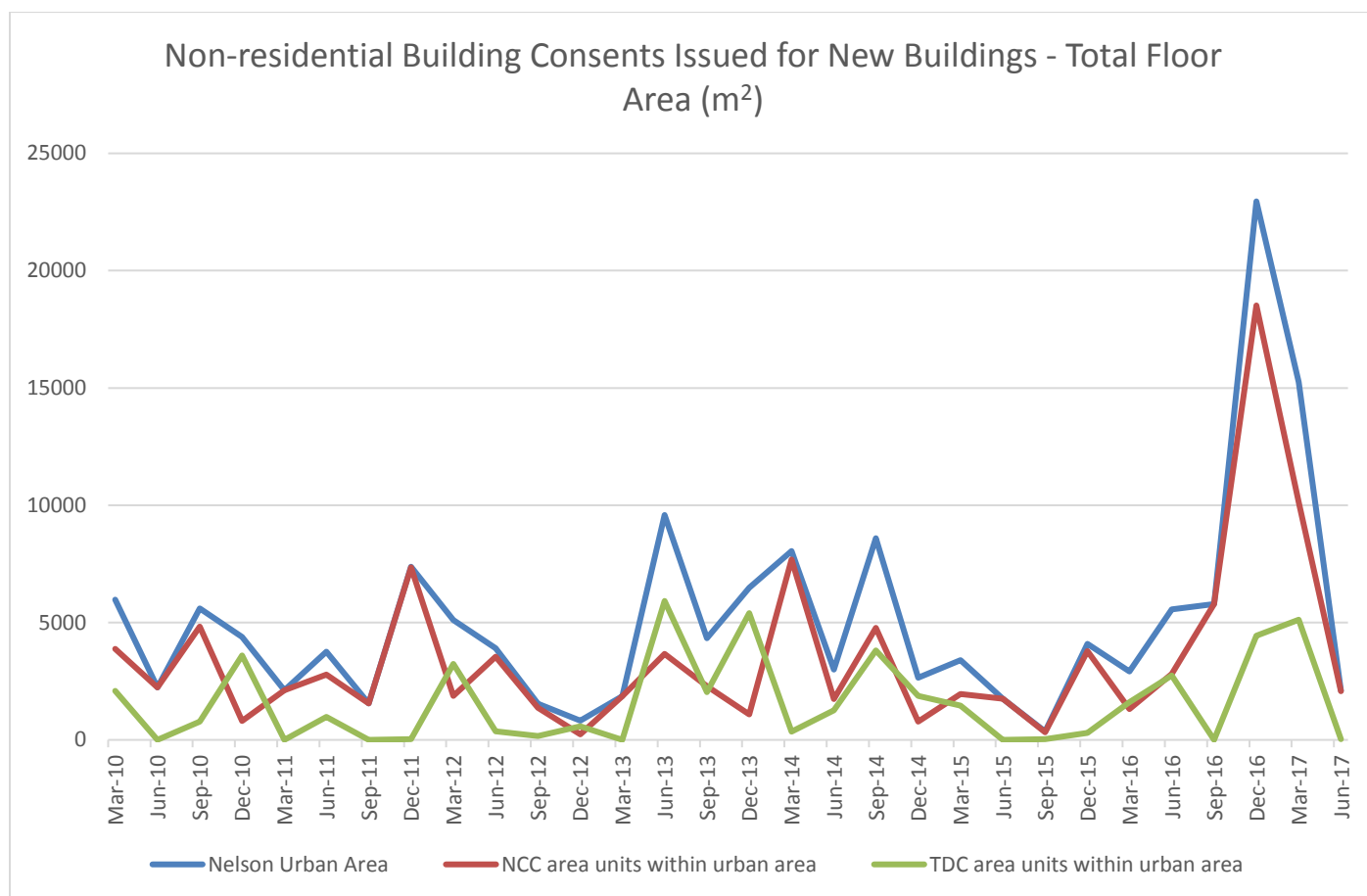
TDC is currently implementing a process for monitoring resource consents for residential units.

Non-residential Development Trends

7. Building Consents Issued for New Buildings – Total Floor Area (m2)

| | Quarter | | | | | |
|----------------------------------|---------|--------|--------|--------|--------|-----------|
| | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | June - 17 |
| Nelson Main Urban Area | 2912 | 5559 | 5793 | 22953 | 15243 | 2100 |
| NCC area units within urban area | 1307 | 2811 | 5793 | 18516 | 10126 | 2076 |
| TDC area units within urban area | 1605 | 2748 | 0 | 4437 | 5117 | 24 |
| All Nelson City | 1307 | 2811 | 5793 | 18516 | 10126 | 2076 |
| All Tasman District | 2125 | 3601 | 1227 | 6588 | 5782 | 2185 |

For Nelson, most of the non-residential building area consented in the June 2017 quarter were factories, industrial, and storage buildings. Non-residential building consents spiked in the previous two quarters in Nelson due to consents for two new unusually large buildings at the Port and Airport.



This data is for consents for new buildings that are either commercial buildings, or factories, industrial, and storage buildings, or hotels, motels, boarding houses, and prisons.

8. Yield of serviced industrial/commercial sites from industrial/commercial zoned land

NCC: there were no titles issued in the March 2017 quarter for new industrial or commercial sites.

TDC: there were no titles issued in the June 2017 quarter for new industrial or commercial sites.

9. Resource Consents for industrial/commercial units

NCC: In the June 2017 quarter, there were four commercial units consented for unit title subdivision as part of the Special Housing Area at 16 Paru Paru Road.

TDC is currently implementing a process for monitoring resource consents for industrial/commercial units.