



**National Policy Statement on Urban Development Capacity
Nelson-Tasman Monitoring Report January - March 2018**

July 2018



Drone image from Richmond West – May 2018

Summary

The National Policy Statement on Urban Development Capacity (NPS-UDC) 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 fourth quarterly monitoring report prepared jointly by Nelson and Tasman staff to report to both Nelson City and Tasman District Councils and covers the period January to March 2018. The indicators that are monitored in this report are housing supply, demand, prices and affordability, new sections created, and building and resource consents for both housing and business.

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

- **House prices and rent:** continued to increase across the combined Nelson-Tasman regions by 8.5% during the year ended March 2018, compared with a 15.3% increase in the previous year. Both Districts experienced similar trends in prices. Rents continue to increase over time but at a slower rate than house prices.
- **Affordability:** According to MBIE's housing affordability measure, as at March 2017, over 80% of rental households in Nelson and Tasman could not comfortably afford the cost of purchasing a house in the typical first-home price bracket, and two-thirds of those household could also not comfortably afford typical rents in both districts.
- **Affordability:** The Massey University Aggregate Home Affordability Index shows that the Nelson-Tasman-Marlborough regional cluster continues to experience affordability challenges. However, there was a slight improvement in affordability during the first quarter of 2018 and the region is now the fourth least affordable region in the country behind Central Otago Lakes, Auckland and Waikato/Bay of Plenty.
- **Building costs:** Nationally construction costs are increasing and QV's "costbuilder" reports in the first quarter of 2018 that the average cost of building a new home in New Zealand's four largest cities (Auckland, Wellington, Christchurch and Dunedin) has risen on average by 3.2% in the year to April 2018 and a total of 29.9% since the previous peak of 2007.
- **Social Housing Need:** The number of applicants waiting on the Social Housing Register have increased in both regions in the year to March 2018, from 53 to 100 in Nelson and 43 to 58 in Tasman. Seven new dwellings providing a total of ten additional bedrooms are planned for construction in 2018 by Housing New Zealand, in Nelson only.
- **Building Consents Issued:** The number of new dwellings granted building consent increased with 132 new dwellings in the Main Urban Area and 179 across both districts. In Tasman, there was a marked increase in the number of building consents issued after the release of a significant number of new lots in the December 2017 quarter.
- **New sections created:** There were 274 new sections created in the Nelson Main Urban Area in the year ended March 2018.
- **Commercial and Industrial Zoned Development:** The total floor area for new commercial and industrial building consents issued increased across both districts.
- **Price Efficiency Indicators:** These have been included for the first time as required under Policy PB7 of the NPS-UDC. The latest price-cost ratio for the Nelson Tasman Region indicates land costs are just above the 'acceptable' level, as a proportion of the total cost of new houses, and means land supply is not quite keeping up with demand.

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Introduction

This is the fourth quarterly monitoring report implementing the National Policy Statement on Urban Development Capacity (NPS-UDC) for the Nelson/Tasman Main Urban Area. The report provides updated data and analysis of changes to the housing market for the March 2018 quarter (1 January to 31 March 2018).

The NPS-UDC requires local authorities within a Medium or High Growth Area to ensure they are well-informed about demand for housing and business development capacity, urban development activity and outcomes. Local authorities are required to monitor a range of indicators on a quarterly basis including:

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

The NPS-UDC also requires local authorities to use information provided by indicators of price efficiency in their land and development markets from December 2017. The indicators include price differentials between zones to understand how well the market is functioning and when additional development capacity might be needed.

The Ministry of Business, Innovation, and Employment (MBIE) and the Ministry for the Environment's (MfE) dashboard of data¹, which this report partly relies on, is updated approximately 8 weeks after the quarter ends, hence the reports lag on this basis.

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. Due to the nature of the source data, some of the results contained within this report relate to the whole of both Territorial Authorities and some relates to the Nelson/Tasman Main Urban Area only. Figure 1 shows the boundary of the Nelson/Tasman Main Urban Area in relation to the local authority boundaries.

Population Trends

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 and 2023 has risen to 9.95%, as compared with 8.5% in 2016². This means the Nelson/Tasman Main Urban Area is still classified as 'medium growth', according to the NPS, falling just below the ten percent threshold defining 'high growth' urban areas. The NPS-UDC notes that the definition of high and medium growth urban areas is a transitional definition and will be reviewed and amended before the end of 2018.

¹ <https://mbienz.shinyapps.io/urban-development-capacity/>

² 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 January - March 2018

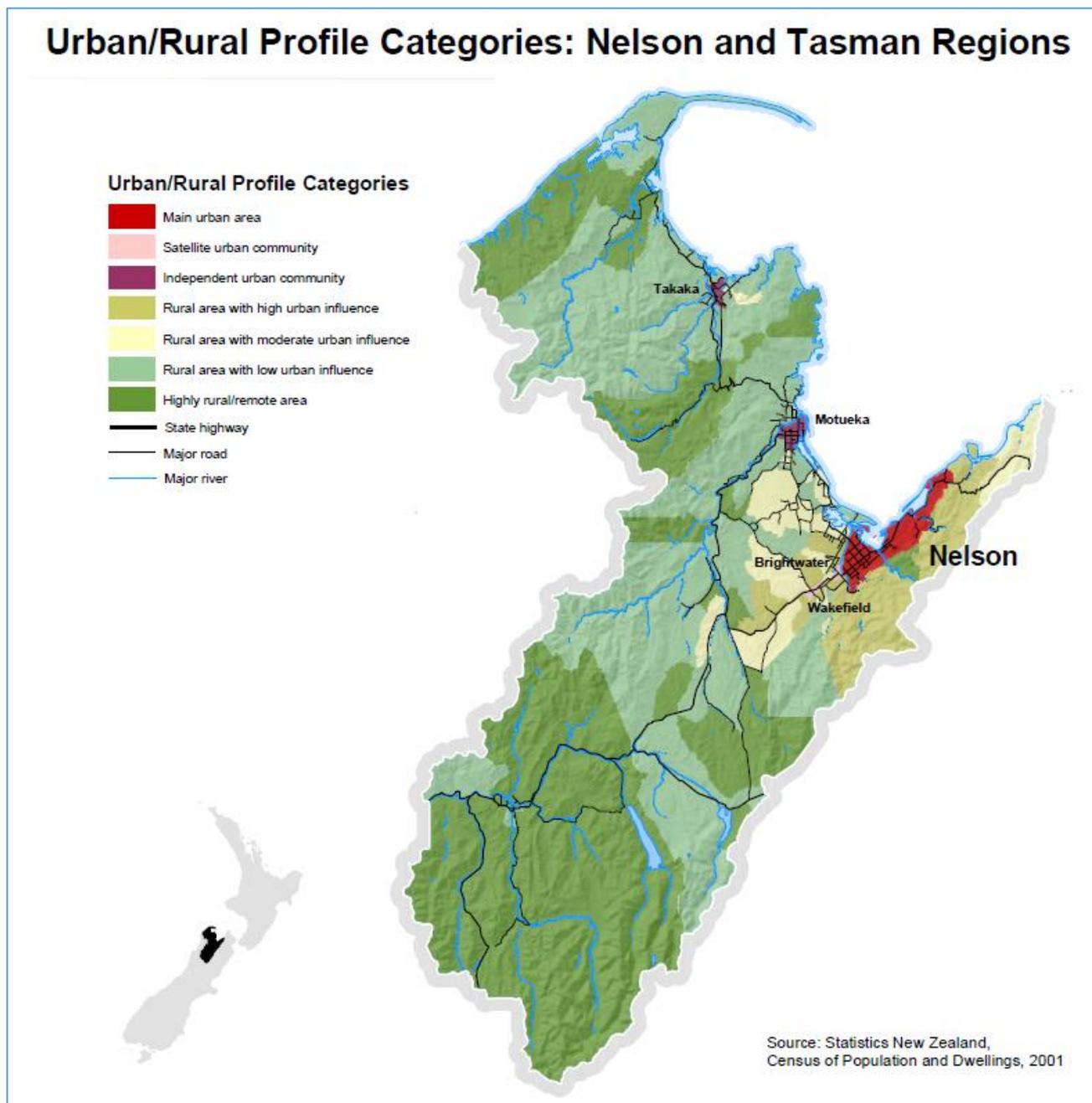


Figure 1: Nelson/Tasman Main Urban Area in dark red

The New Zealand Treasury's Analytics and Insights team have recently developed the 'Insights' web app using data from Statistics New Zealand's Integrated Data Infrastructure (IDI)³. The Insights web app provides an estimate of regional population change between censuses. A summary of key population trends between the last census in 2013 and the most recent data from 2016 are shown in Table 1 below.

Nelson City (4.2%) and Tasman District (4.6%) both have a growth rate slightly less than the New Zealand average of 4.8%. However, the contribution that internal and external migration made to each region's growth rate differed significantly. For Nelson City, overseas migrants was the main source of population growth (3.1%), while for Tasman District internal migration was the main source (2.4%). Therefore, the net gain in overseas migrants made up three-quarters of Nelson's population growth between 2013 and 2016, compared with a third of Tasman's population growth. Tasman had a greater gain from internal New Zealand

³ <https://insights.apps.treasury.govt.nz/>

migration. Both districts have a similar increase or decrease due to natural causes (births and deaths) and New Zealanders returning from overseas.

The data presented in Insights was developed by linking administrative information across government agencies. The data will not always be accurate, particularly when presented at a very detailed level. The results from the population change tools are based on the estimated New Zealand resident population and are as at the end of June each year.

	Nelson City	Tasman District
Net & Internal Migration	<p>4.2%</p>  <p>increase in the population of Nelson City between 2013 and 2016 from 48,711 to 50,760 (an increase of 2,049). This compares to an increase of 4.8% for all NZ. Migration within NZ contributed 0.6% (an increase of 309) to this increase.</p>	<p>4.6%</p>  <p>increase in the population of Tasman District between 2013 and 2016 from 48,399 to 50,610 (an increase of 2,211). This compares to an increase of 4.8% for all NZ. Migration within NZ contributed 2.4% (an increase of 1,152) to this increase.</p>
Births & Deaths	<p>1,542</p>  <p>children were born in Nelson City between June 2013 and June 2016 while 1,212 people died. This represents a natural increase of 330 or 0.7%, compared to a natural increase of 1.7% across New Zealand.</p>	<p>1,347</p>  <p>children were born in Tasman District between June 2013 and June 2016 while 1,077 people died. This represents a natural increase of 270 or 0.6%, compared to a natural increase of 1.7% across New Zealand.</p>
External Migration - Overseas Migrants	<p>1,983</p>  <p>overseas migrants arrived in Nelson City between 2013 and 2016, while 453 left. This represents an increase of 1,530 or 3.1% of the population, compared to a 3.5% increase nationally. The largest source of migrants was India, with 273 arrivals.</p>	<p>1,014</p>  <p>overseas migrants arrived in Tasman District between 2013 and 2016, while 285 left. This represents an increase of 729 or 1.5% of the population, compared to a 3.5% increase nationally. The largest source of migrants was the United Kingdom, with 171 arrivals.</p>
Net Migration - New Zealanders	<p>1,143</p>  <p>New Zealanders arrived in Nelson City by 2016 after living overseas in 2013, while 1,197 departed NZ by 2016 after living in Nelson City in 2013. This represents a decrease of 54 or 0.1% of the Nelson City population, compared to a decrease of 0.4% across NZ.</p>	<p>1,071</p>  <p>New Zealanders arrived in Tasman District by 2016 after living overseas in 2013, while 951 departed NZ by 2016 after living in Tasman District in 2013. This represents an increase of 120 or 0.2% of the Tasman District population, compared to a decrease of 0.4% across NZ.</p>

Table 1: Estimates of regional population change between censuses (NZ Treasury⁴)

⁴ Source: <https://insights.apps.treasury.govt.nz/>

Residential Development Trends

Market Indicators

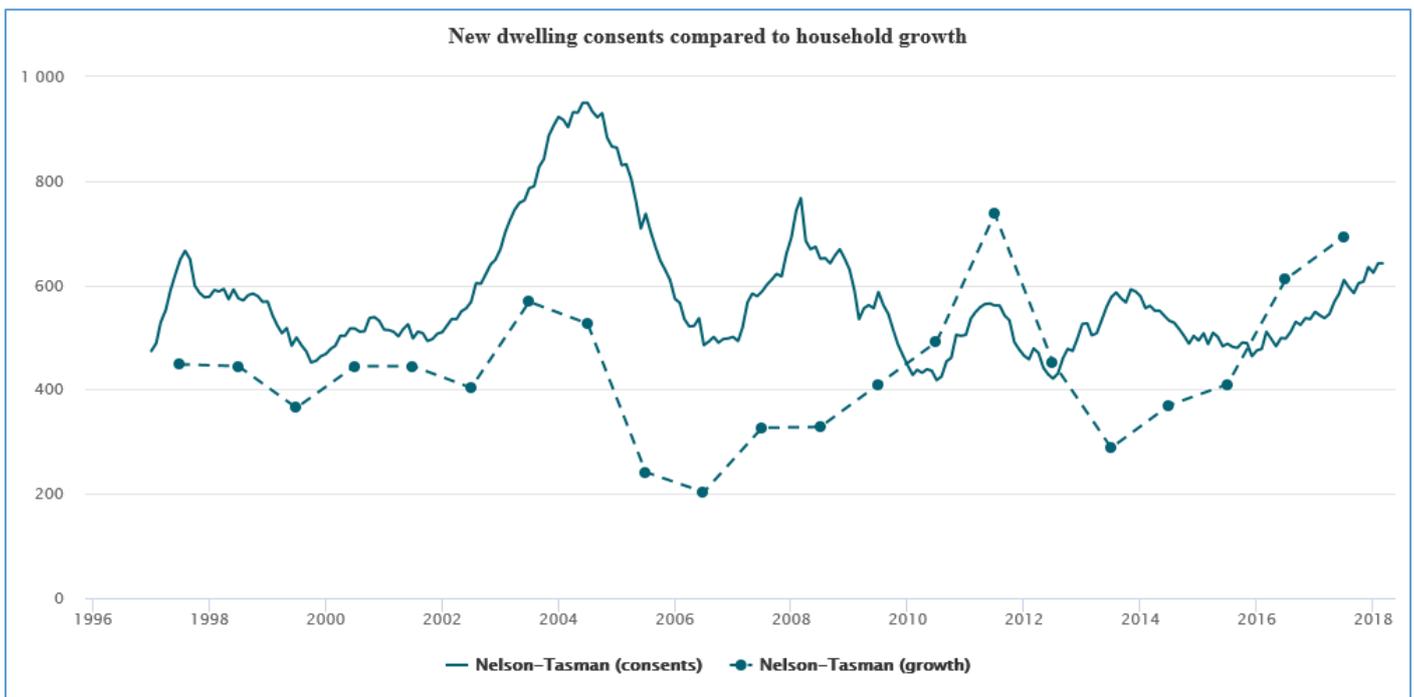
The purpose of monitoring the market indicators is to support analysis and understanding of local housing markets by local authorities and support implementation of the NPS-UDC. The MBIE and MfE have provided local authorities with a range of market indicators that local authorities are required to monitor under policy PB6 of the NPS-UDC.

1. Demand and Supply

Household growth is used within the MBIE/MfE dashboard as a proxy for determining demand. It is calculated from the estimated resident population, divided by the local average housing size. The actual resident population and household numbers are confirmed after each Census. Previous Census results have resulted in revisions of Nelson's population estimates by +/- 4% and Tasman's by +/- 2%. The measure for household growth is updated annually at the end of the June quarter so it will not be reported on until the next quarterly monitoring report.

The number of new dwelling consents is used within the dashboard as a proxy for determining supply. Both sets of data for supply and demand are sourced from Statistics New Zealand and lag by six months to account for the time taken from consenting to completion (presented as a 12 month rolling average).

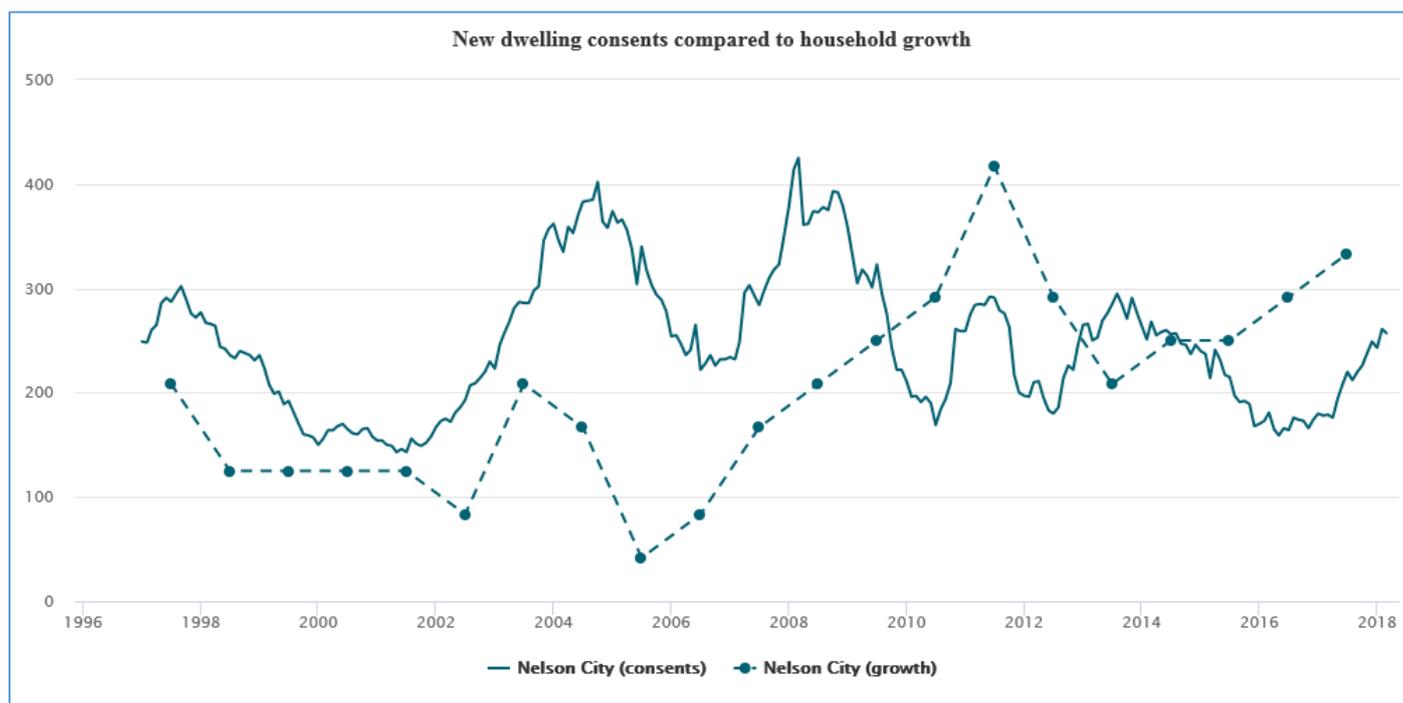
Over the last two decades, Nelson and Tasman have generally had sufficient new housing to meet household growth (Graph 1). However, since 2016, consents for new dwellings in Nelson do not appear to be keeping up with household growth (Graph 2). Despite Tasman's increase in new dwellings exceeding household growth in the region (Graph 3), an apparent overall under-supply in the combined Nelson-Tasman market could be one contributor to the significant increase in house prices in the last two years (Graph 4).



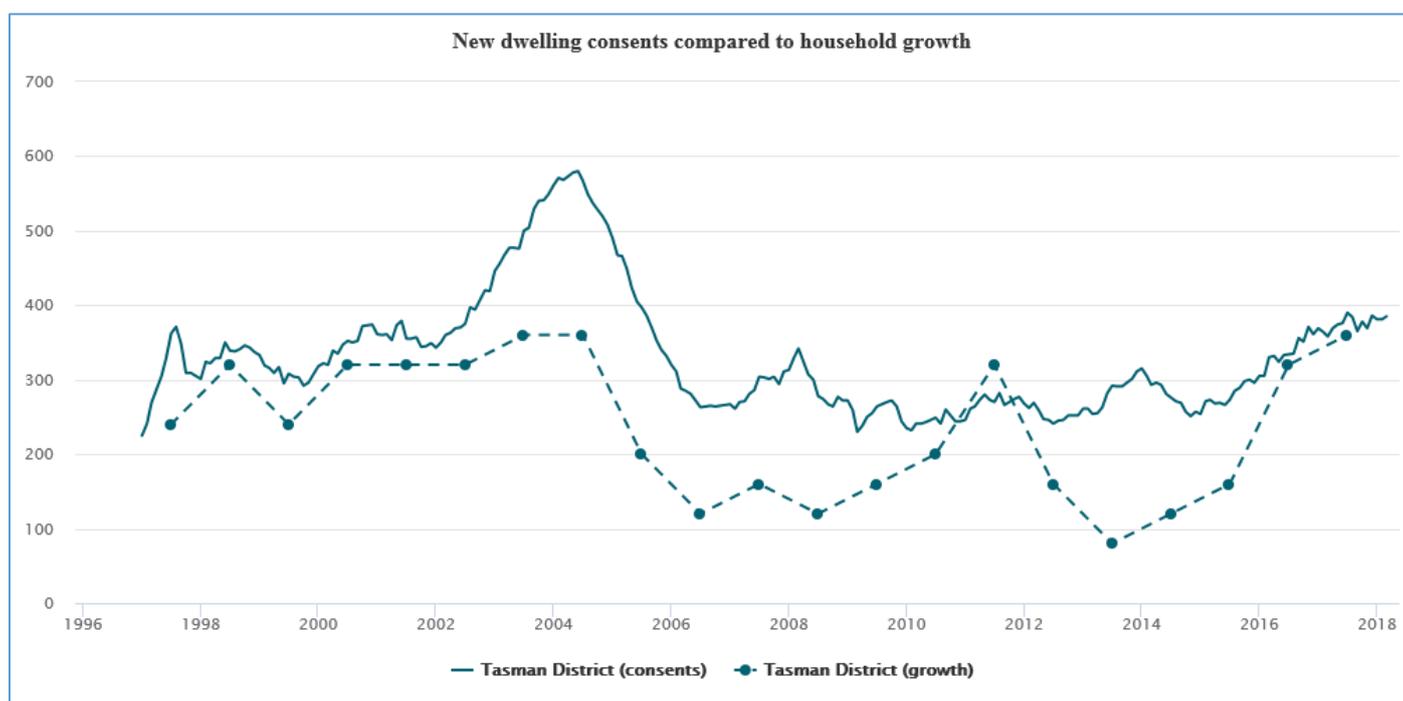
Graph 1. New dwelling consents compared to household growth – Nelson-Tasman Regions Combined.

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

In reality there are a 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 developers/owners, and building costs.



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



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

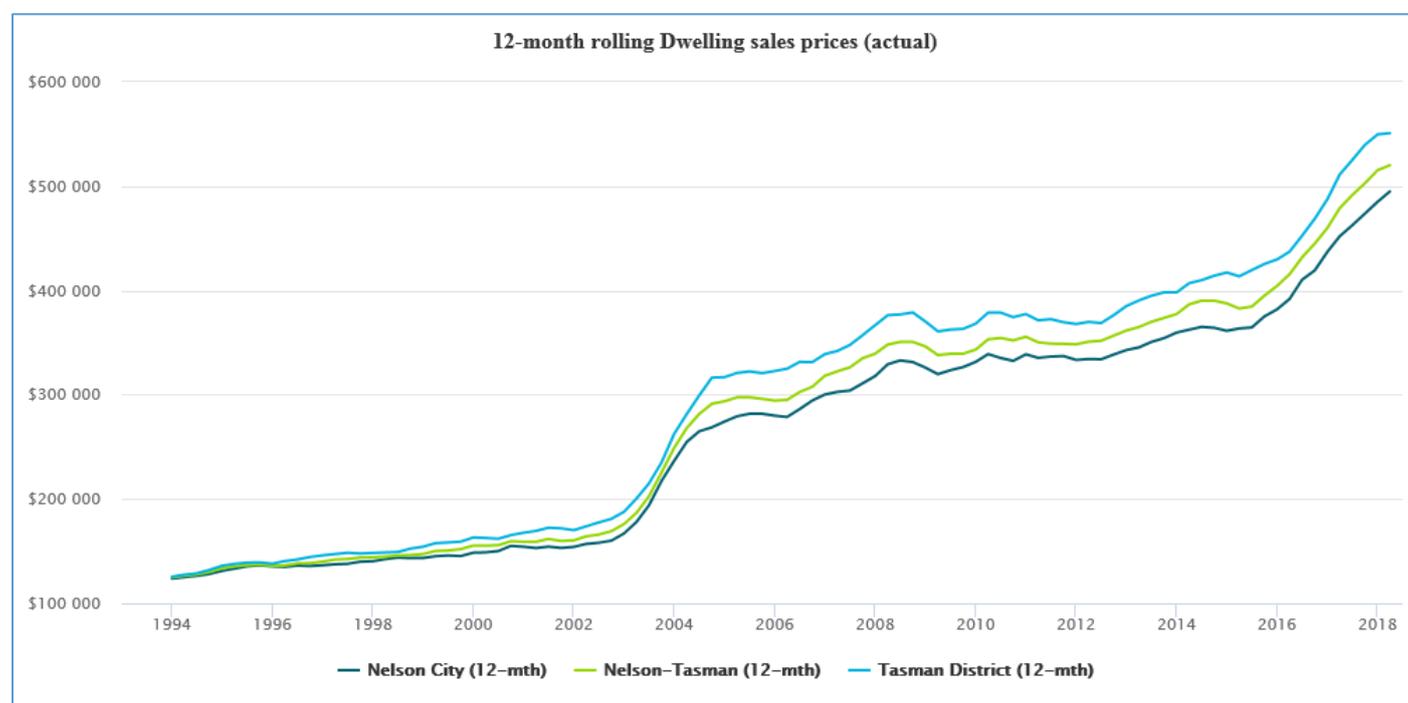
2. Prices and rents

Housing prices continue to increase over time in both Nelson and Tasman Districts (Graph 4). The median sale price for the year ended March 2018 was \$495,000 in Nelson and \$550,875 in Tasman.

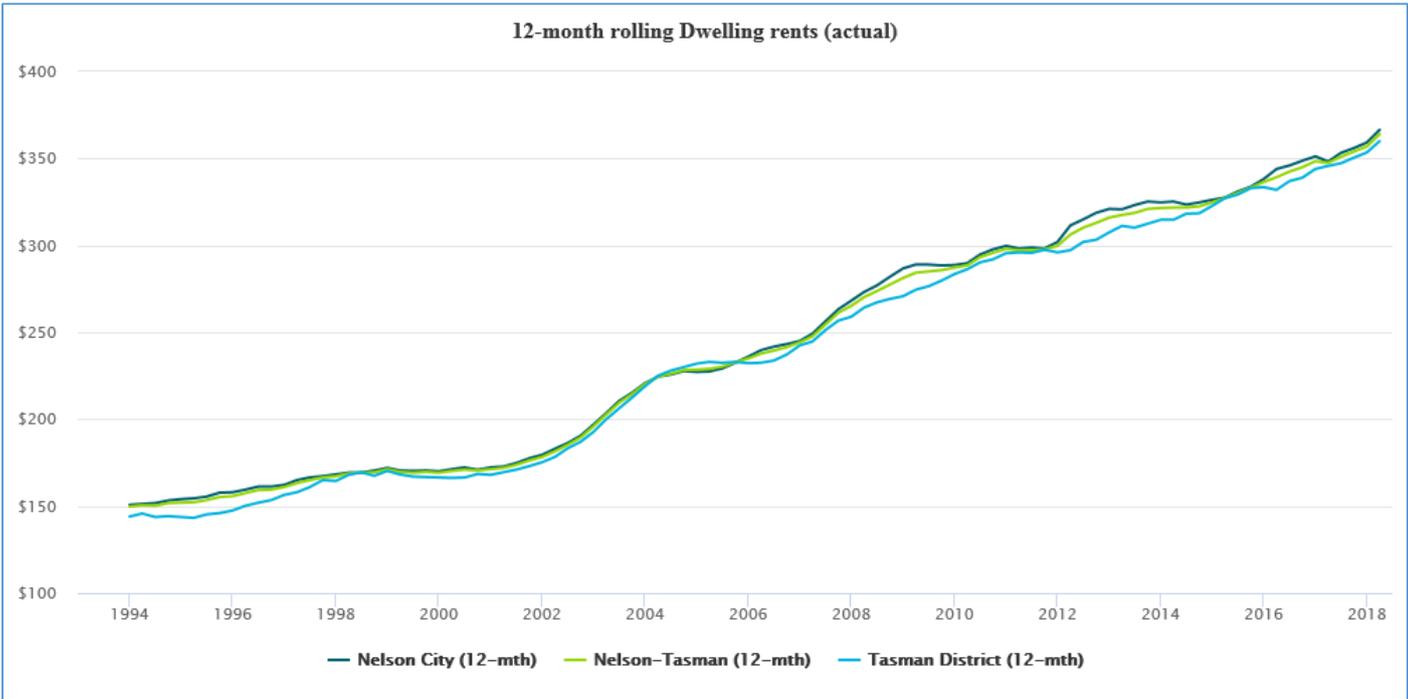
Across the combined Nelson-Tasman Districts, prices increased 8.5% during the year ended March 2018, compared with a 15% increase in the year ended March 2017, and an 8.5% increase in prices in the year ended March 2016. Over these periods Nelson and Tasman experienced similar trends in house prices.

Dwelling sale prices during the March quarter for the whole of Tasman District increased only slightly from the December 2017 quarter. Ongoing monitoring will be required to determine whether this reflects a longer-term trend in the Tasman housing market.

Residential rents continue to increase at a slower rate than house prices over time (Graph 5). This increase may suggest that there is a shortfall in housing which is also affecting the rental market.



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



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

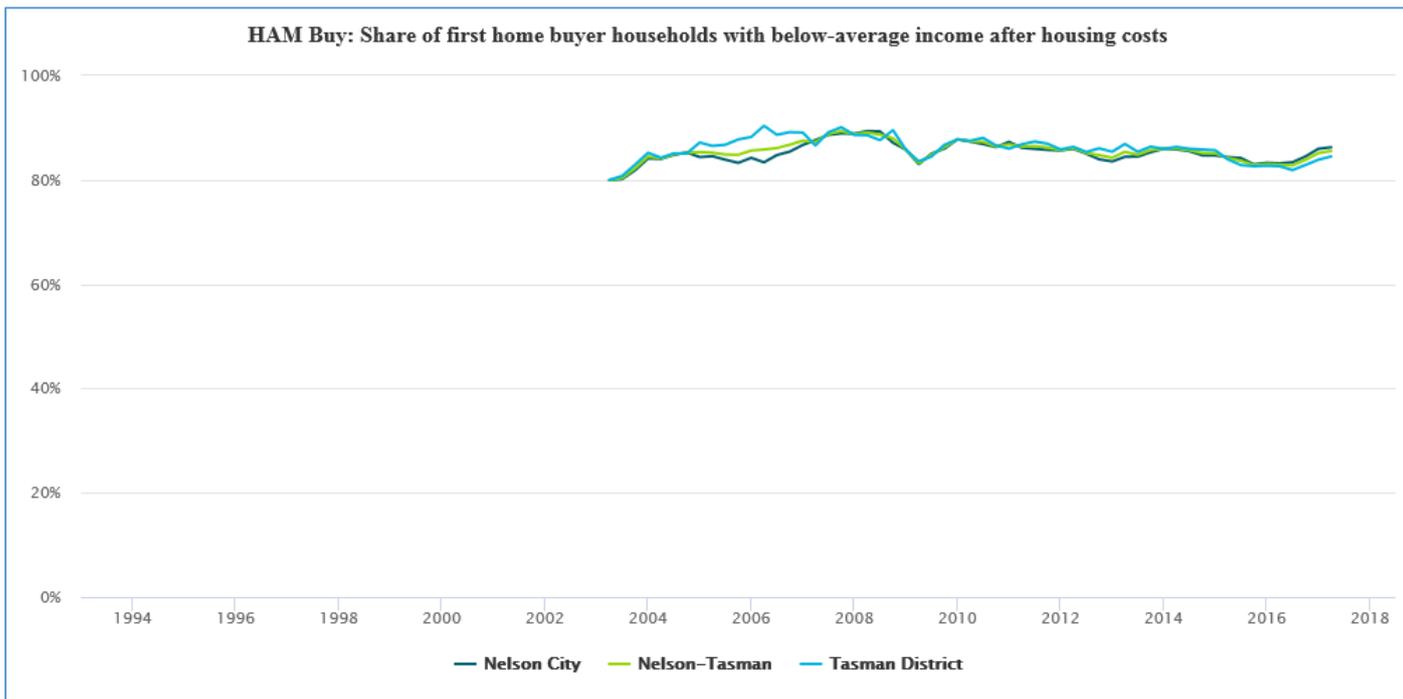
3. Housing Affordability

MBIE Housing Affordability Measures

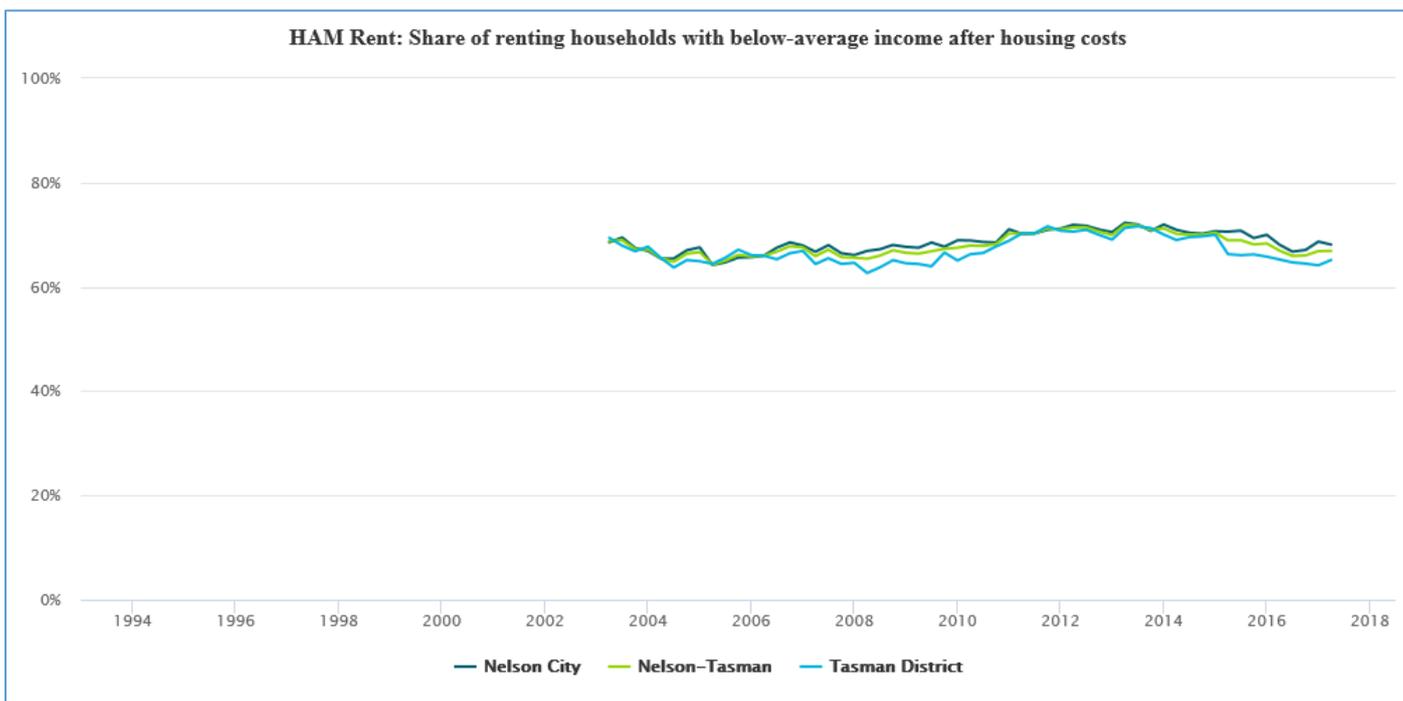
The MBIE derived Housing Affordability Measures (HAM), HAM Buy and HAM Rent, measure trends in affordability of house prices and rents relative to income. The HAM uses data on household incomes of rental households, house prices, and rents. The HAM is designed to map shifts in affordability over time, showing whether there are more or fewer households that have more or less income left over after paying for their housing costs.

The HAM Buy measure for Nelson and Tasman Districts has been updated to cover the period up to March 2017 (Graph 6). The measure indicates that for the year to March 2017, 86.3% of first-home buyer households in Nelson, and 84.5% 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. For Nelson this indicates that there has been a 3.1% increase since March 2016 in the number of first-home buyer households who could not comfortably afford a typical 'first-home' priced house and a 1.9% increase for Tasman.

The HAM Rent measure for Nelson and Tasman Districts indicates that at March 2017, 68.1% of rental households in Nelson, and 65.1% for Tasman, cannot comfortably afford typical rents, being below the 2013 national affordability benchmark (Graph 7). For both Nelson and Tasman there has been little to no change in this measure since March 2016.



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



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

Massey University Aggregate Home Affordability Index

HOME AFFORDABILITY INDEX				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	February 2017	November 2017	February 2018	Improvement	Decline	Improvement	Decline
Northland	20.90	20.30	21.14		1.2%		4.1%
Auckland	33.61	35.74	34.63		3.0%	3.1%	
Waikato/Bay of Plenty	21.37	23.26	22.79		6.7%	2.0%	
Hawke's Bay	16.43	18.20	19.58		19.2%		7.5%
Taranaki	13.63	14.77	14.05		3.1%	4.9%	
Manawatu/Whanganui	12.11	14.14	13.38		10.5%	5.4%	
Wellington	20.68	21.74	21.14		2.2%	2.8%	
Nelson/Marlborough	21.39	23.42	22.77		6.4%	2.8%	
Canterbury/Westland	19.10	20.17	19.00	0.5%		5.8%	
Otago	15.35	15.86	15.70		2.3%	1.0%	
Central Otago Lakes	36.42	39.55	40.78		12.0%		3.1%
Southland	9.94	12.12	10.62		6.8%	12.4%	
New Zealand	21.63	23.35	22.57		4.4%	3.4%	

Table 2: Home Affordability Index (Massey University⁵)

The Massey Home Affordability Index (March 2018) shows that the Nelson-Tasman-Marlborough regional cluster continues to experience affordability challenges.

The index this quarter shows a 6.4% decline in home affordability in the 12 months to the end of February 2018 in Nelson/Marlborough. Based on this index the region has now moved from third to fourth least affordable region in New Zealand after Waikato/Bay of Plenty.

As with the HAM, the Massey Home Affordability Index 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 New Zealand data. The Reserve Bank series is based on a 2-year fixed new residential average mortgage interest rate which was revised from 5.25% to 5.08%. It should be noted that the revised average mortgage interest rate is backdated to January 2017, resulting in a revision of previously reported Home Affordability Index values. Unlike the HAM measure, the income data provided directly from Statistics New Zealand 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.

⁵ Source: Home Affordability Report - Quarterly Survey March 2018, Vol 28, No.1

Construction Costs

Nationally, construction costs are increasing⁶ 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 still 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 the first quarter of 2018 finds the average cost of building a new home in New Zealand’s four largest cities (Auckland, Wellington, Christchurch and Dunedin) has risen on average by 3.2% in the year to April 2018 and a total of 29.9% since the previous peak of 2007.

Social Housing Need

As at March 2018 the Ministry for Social Development Housing Register shows for Nelson there are 100 applicants waiting on the register and for Tasman there are 58 applicants. These figures have grown since the March 2017 quarter respectively by 47 and 15 applicants. Priority A applicants are people considered ‘at risk’ and includes severe and persistent housing need that must be addressed immediately. In Nelson 67 of the 100 applicants are priority A (up from 48 in the December 2017 quarter) and in Tasman 44 of the 58 applicants are priority A (up from 27 in the December 2017 quarter). According to the Housing Register, demand for housing in Nelson and Tasman remains largely for 1 and 2 bedroom dwellings.

The Ministry of Social Development also publish a quarterly regional factsheet⁷ with the West Coast Tasman region based on the following Territorial Local Authorities: Buller District, Grey District, Marlborough District, Nelson City, Tasman District and Westland District. The latest factsheet reports figures as of 31 March 2018 and indicate an increase in the number of applicants on the Social Housing Register.

The Housing Minister announced in March 2018 that 20 new state houses will be built in the Nelson/Marlborough region. Seven of these dwellings will be constructed in Nelson and will consist of three 2-bedroom homes and four 1-bedroom homes. No new dwellings are planned to address the identified shortfall in either social or transitional housing for Tasman.

⁶ <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>

⁷ <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/statistics/housing/quarterly-factsheets/2018/west-coast-tasman-hrf-march-2018.pdf>

Nelson City	Number of applicants on the Social Housing Register 132 (98)	Public Housing tenancies 569 (571)	Transitional Housing places 15 Target 16 Actual	Number of EH SNG approved 43 (57) Amount of EH SNG approved \$39,831 (\$51,479)
Tasman District	Number of applicants on the Social Housing Register 63 (45)	Public Housing tenancies 153 (155)	Transitional Housing places 12 Target 1 Actual	Number of EH SNG approved 31 (38) Amount of EH SNG approved \$30,135 (\$28,946)

Table 3: Overview of demand for social housing figure in brackets are for the previous quarter⁸.

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 Nelson/Tasman Main Urban Area, the parts of Nelson and Tasman that are within the Nelson/Tasman Main Urban Area, and for the whole of each District.

4. Building Consents Issued

The number of building consents issued for new dwellings in Nelson has remained relatively steady while there has been a significant increase in the number of new dwelling consents within Richmond. This is most likely due to the granting of titles within both the Hart Rise and lower Queen Street subdivisions. Table 4 details the number of new dwellings granted building consent every quarter over the last 18 months.

	Quarter					
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Nelson/Tasman Main Urban Area	111	83	95	96	75	132
NCC area units within Main Urban Area	78	50	63	62	54	63
TDC area units within Main Urban Area	33	33	32	34	21	69
NCC – all District	79	51	63	62	54	63
TDC – all District	101	83	100	110	78	116

Table 4. Building consents for new dwellings, actual numbers (Statistics New Zealand⁹)

⁸ **EH SNG** means the Emergency Housing Special Needs Grant - for emergency housing. The purpose of the EH SNG is to help individuals and families with the cost of staying in short-term emergency accommodation (motels, hostels, campsites etc) if they are temporarily unable to access MSD's contracted transitional housing places.

⁹ Source: Statistics New Zealand Website – Building Consents Issued: March 2018

5. Yield of serviced residential sites from residential zoned land

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

Nelson

Nelson has seen 39 sections created in the March 2018 quarter. On a 12-month basis, there were 140 sections created in the year ending March 2018, compared with 162 in the previous year.

Tasman

Tasman's figures represent the area units which fall within the Nelson/Tasman Main Urban Area only which essentially are Richmond and Hope. The number of new vacant lots continued to increase with the release of 61 new vacant lots in the Lower Queen Street subdivision and a further nine vacant lots in Hart Rise subdivision.

	Quarter								
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NCC area units within Main Urban Area	44	32	53	4	73	28	38	35	39
TDC area units within Main Urban Area (Richmond/ Hope)	Jan 16 – Jul 16 24		Jul 16- Dec 16 29		63	0	0	64	70

	Year ended March 2017	Year ended March 2018
Nelson/Tasman Main Urban Area	266	274

Table 5: Summary of residential resource consents.

6. Resource Consents for residential units

Nelson

In the March 2018 quarter, there were 16 resource consents for residential subdivisions. These consents were to create 231 new residential lots.

Tasman

In the March 2018 quarter, there were six resource consents granted for residential subdivisions district wide, totalling 74 new lots. Within the Main Urban Area there was only one resource consent granted for residential subdivision on the corner of Paton and Bateup Road for 48 lots.

Non-residential Development Trends

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

	Quarter					
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Nelson Main Urban Area	22,953	15,243	2,100	14,861	2,910	9,216
NCC area units within urban area	18,516	10,126	2,076	14,279	1,206	2,934
TDC area units within urban area	4,437	5,117	24	582	1,704	6,282
All Nelson City	18,516	10,126	2,076	14,279	1,206	2,934
All Tasman District	6,588	5,782	2,185	4,348	4,620	27,578

Table 5: Summary of non-residential resource consents.

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

Nelson

There were no titles issued in the six months ending March 2018 for new industrial or commercial sites.

Tasman

For the three months ending March 2018, there were no titles issued for commercial/industrial subdivision.

9. Resource Consents for industrial/commercial units

Nelson

In the March 2018 quarter, there were no commercial units consented for subdivision.

Tasman

In the first three months of 2018, there was one commercial/industrial subdivision consent granted in Takaka.

Price Efficiency Indicators

From 31 December 2017 high and medium growth Local Authorities are required to use a set of price efficiency indicators (along with other evidence) to inform planning decisions (NPS-UDC policy PB7).

The price efficiency indicators are:

- Price – Cost ratio (homes)
- Land ownership concentration
- Rural-urban land value differential
- Industrial zone differential

The price efficiency indicators are primarily to inform the three-yearly Housing and Building Assessments and are updated on an irregular basis. As a result the indicators will be reported separately and have not been included in this monitoring report, with the exception of the price-cost ratio indicator for new homes. This has been included as it assists with understanding land supply.

Price – Cost Ratio indicator (homes)

The price-cost ratio is the gap between house prices and construction costs in the Nelson Main Urban Area for standalone dwellings i.e. the cost of the land.

The indicator assumes that if the cost of land is significant and/or increasing, relative to buildings costs, there is a shortage of sections relative to demand. Appropriate construction costs are applied to existing houses.

The price-cost ratio is 1.5 when the cost of a section (land) comprises one third of the house price. Therefore, the 1.5 price-cost ratio is used as a benchmark for assessment as it signals that supply of land is relatively responsive to demand. If sufficient development opportunities exist, the ratio should be below 1.5 most of the time. It should be noted that the 25% Construction cost buffer also allows for construction costs being undervalued on the Building Consent application form.

The latest ratio (1.55) puts the combined Nelson and Tasman region just above the 'acceptable' threshold for supply of land being responsive to demand. However, it is also noted that the ratio has risen during a time which coincides with nationally high house prices, and demand for housing.

The fact that the ratio is increasing may explain why developers are building relatively large expensive homes – since the land value is increasing, the capital value has to also be relatively high to make the development viable for a developer.

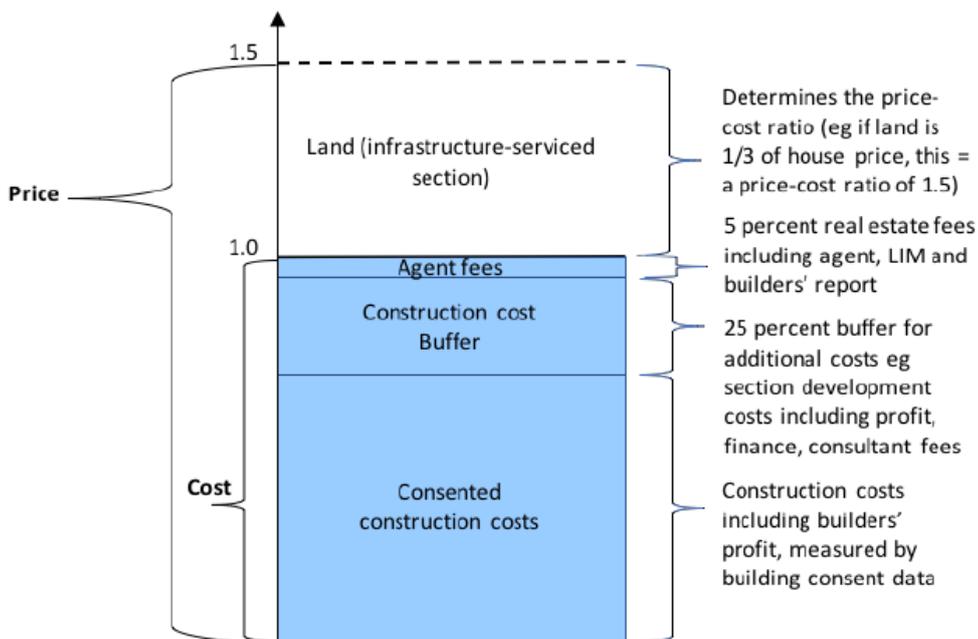
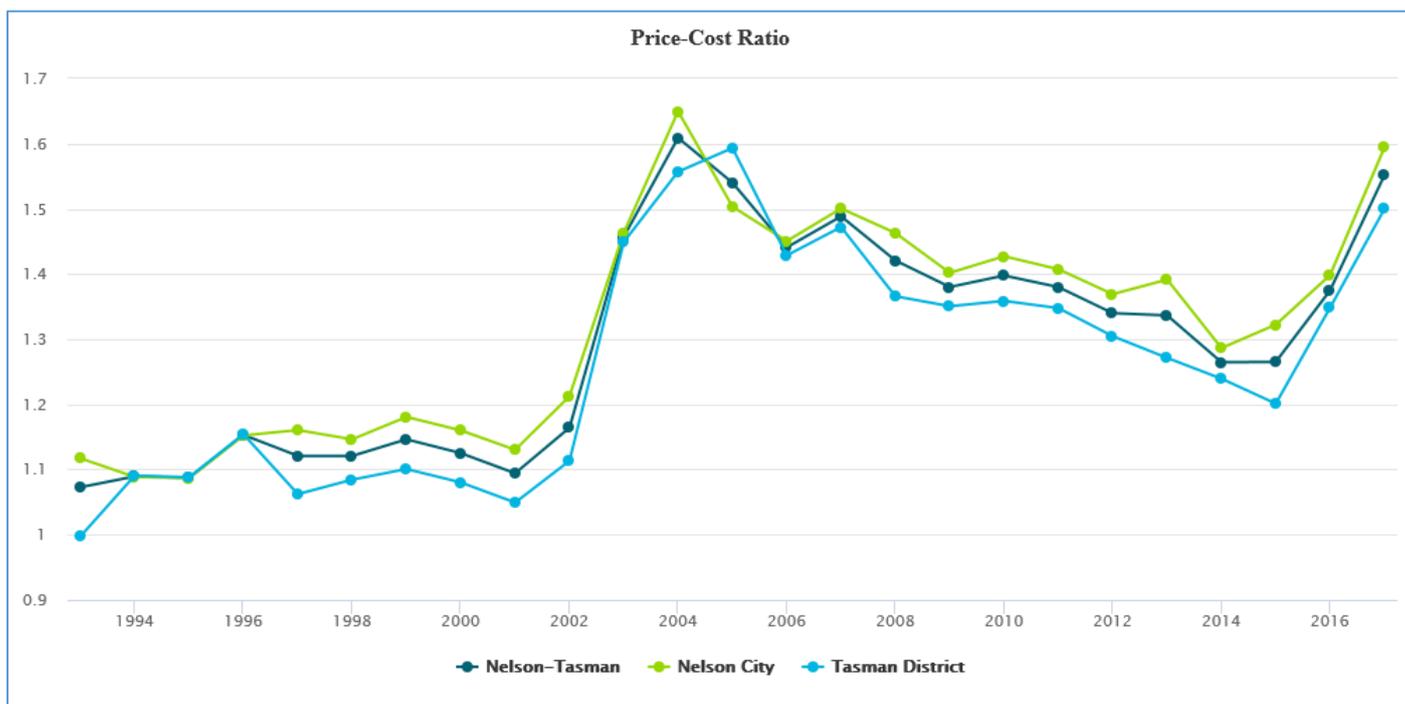


Figure 2: The Components of the Price-Cost Ratio (Source: MBIE)



Graph 8: Price-Cost Ratio, Nelson-Tasman combined, Nelson City, Tasman District