



**National Policy Statement on Urban Development Capacity
Nelson-Tasman Monitoring Report Jan-March 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.

This is the first of quarterly monitoring reports which Nelson and Tasman officers are preparing jointly to report to both Nelson City and Tasman District Councils. The indicators that are monitored in this report are population growth, affordability of housing, house prices and rents, new sections created and building consents for both housing and business.

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

- **Population** : Between 2018 and 2043 the population of Tasman District is projected to grow from 51,300 to 55,800 people, under the Statistics NZ medium series projections, or from 52,400 to 63,900 (11,500 people) under the high series projections¹. Council's growth modelling has assumed the high series projections for Richmond for the first 10 years and medium series projections thereafter. Richmond is projected to grow by 3,713 people or approximately 1600 households between 2018 and 2043.
- Nelson City's population is projected to grow from 51,800 in 2018 to 58,000 in 2043 under the medium series projections scenario. The number of households is projected to increase from 21,500 to 25,600 over the same timeframe.
- **Dwelling provision:** Recent overall under supply of new dwellings in the combined Nelson-Tasman regions.
- **House prices:** increased across the combined Nelson-Tasman regions by 14% during the year ended March 2017, compared with a 9% increase in the previous year. Both Districts experience similar trends in prices.
- **House rents:** also generally increasing over time but at a slower rate than prices.
- **Affordability:** According to MBIE's housing affordability measure, as at June 2015, the majority of rental households could not comfortably afford the cost of renting
- The majority of rental households could not comfortably afford the cost of purchasing a house in the typical first-home price bracket²
- Other affordability indices (Massey University aggregate housing affordability index) (March 2017) show that the Nelson-Tasman-Marlborough regional cluster is experiencing affordability challenges. Based on this index the region remains the third least affordable region in the country behind Central Otago Lakes and Auckland
- **New sections created:** There are signs of housing supply growth in Nelson with a large number of new residential sections being created in the last quarter, including for two apartment blocks in Special Housing Areas (SHAs).
- In Tasman, building consents have outstripped the creation of titles over the past year, meaning that vacant titles are being taken up faster than new titles are being created. Supply of lots is expected to increase significantly in the next 12-18 months based on knowledge of developments and for the most recent quarter (January-March 2017) more lots were created than Building Consents issued in Richmond and Hope. Also a

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.

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.

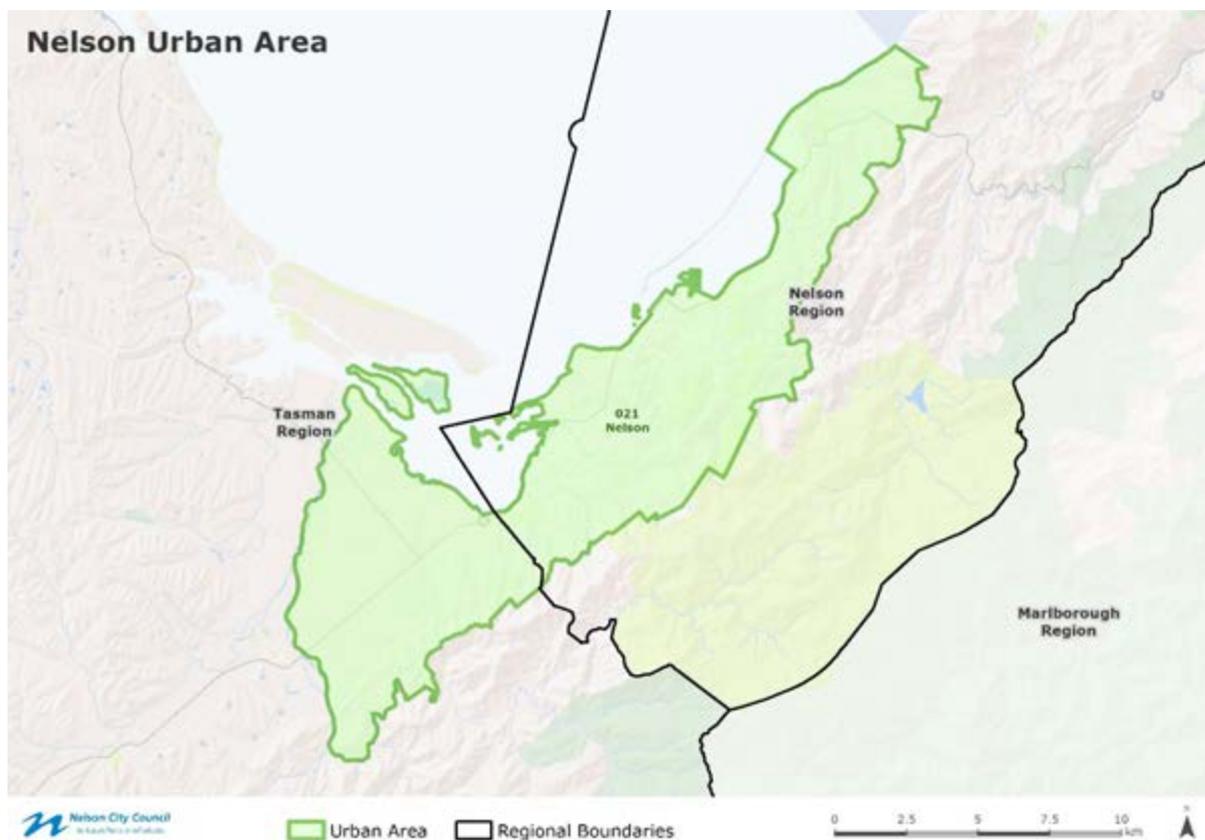
number of special housing area proposals have recently been approved by Tasman District Council to be recommended to be established to the Minister.

- **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 building costs.
- **Business activity:** Commercial and industrial building activity in the Nelson Main Urban Area has been relatively stable since 2010 but has spiked recently in Nelson due to consents for two new unusually large buildings at the Port and Airport.

Nelson Main Urban Area

The "Nelson 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 Main Urban Area only. Figure 1 shows the boundary of the Nelson Main Urban Area in relation to the local authority boundaries.

Figure 1: Nelson Urban Area

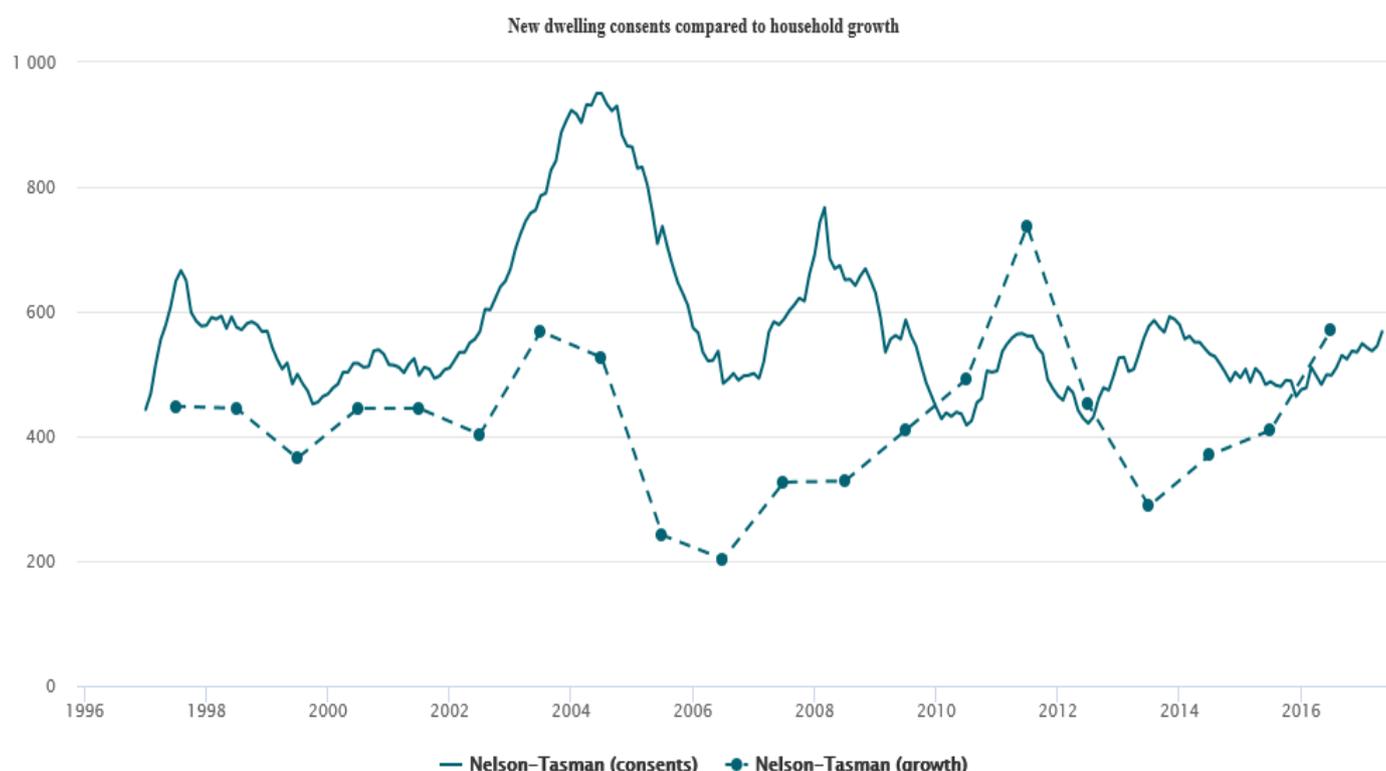


Residential Development Trends

MBIE/MfE data

The Ministry of Business, Innovation, and Employment (MBIE) and the Ministry for the Environment (MfE) have started to provide 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.

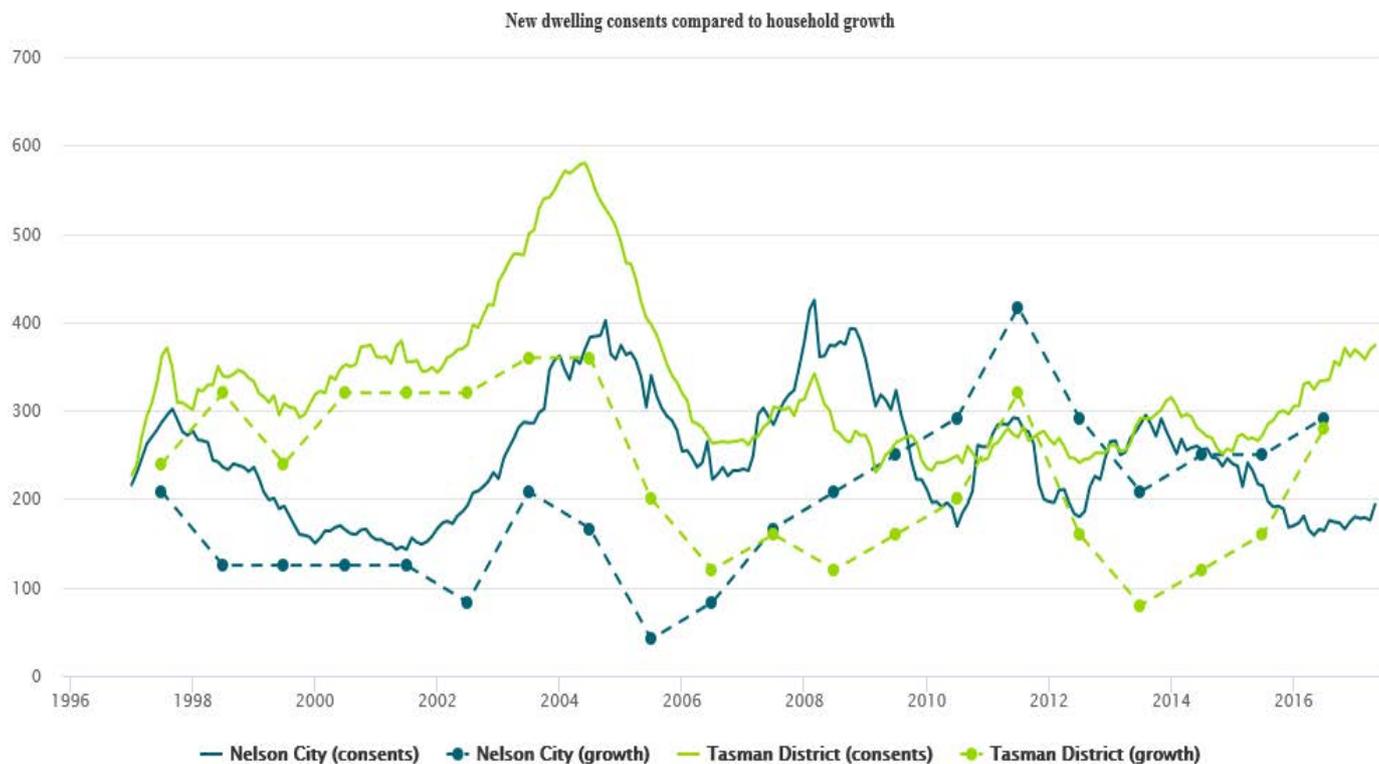
1. Demand and Supply



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 and 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%.

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 ten years’ worth of dwelling capacity on land which is zoned, serviced and feasible for residential development.

Nationally, construction costs are increasing³ 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.

³ <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>

2. Prices and rents



Graph 3: Dwelling sales prices – actual, rolling average, Nelson-Tasman combined, Nelson City, Tasman District

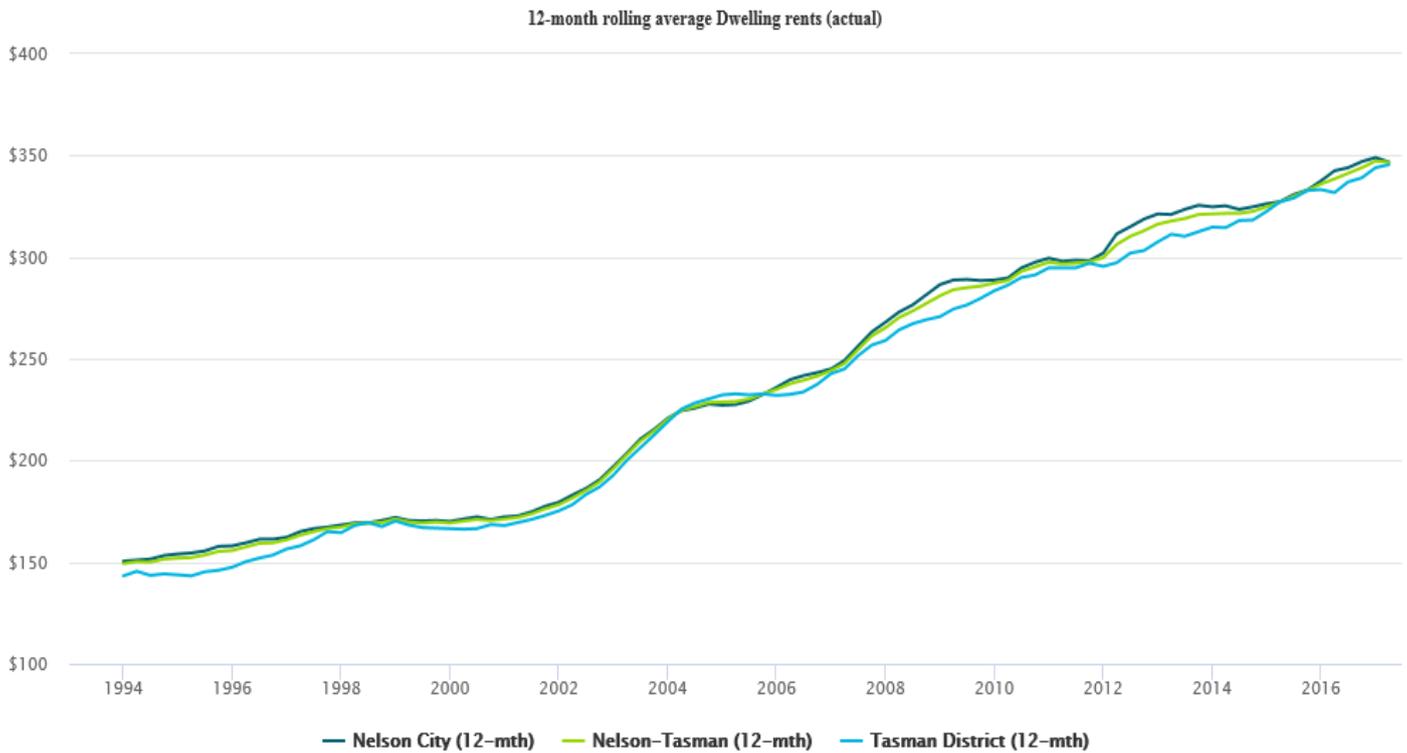
Housing prices have increased over time in both Nelson and Tasman Districts. The median sale price for the year ended March 2017 was \$449,250 in Nelson and \$504,875 in Tasman.

Across the combined Nelson-Tasman Districts area, prices increased 14% during the year ended March 2017, compared with a 9% increase in the year ended March 2016, and a 1% decrease in prices in the year ended March 2015. Nelson and Tasman experienced similar trends in house prices.

Increasing prices in Tasman, despite an apparent over-supply 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 4: 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.

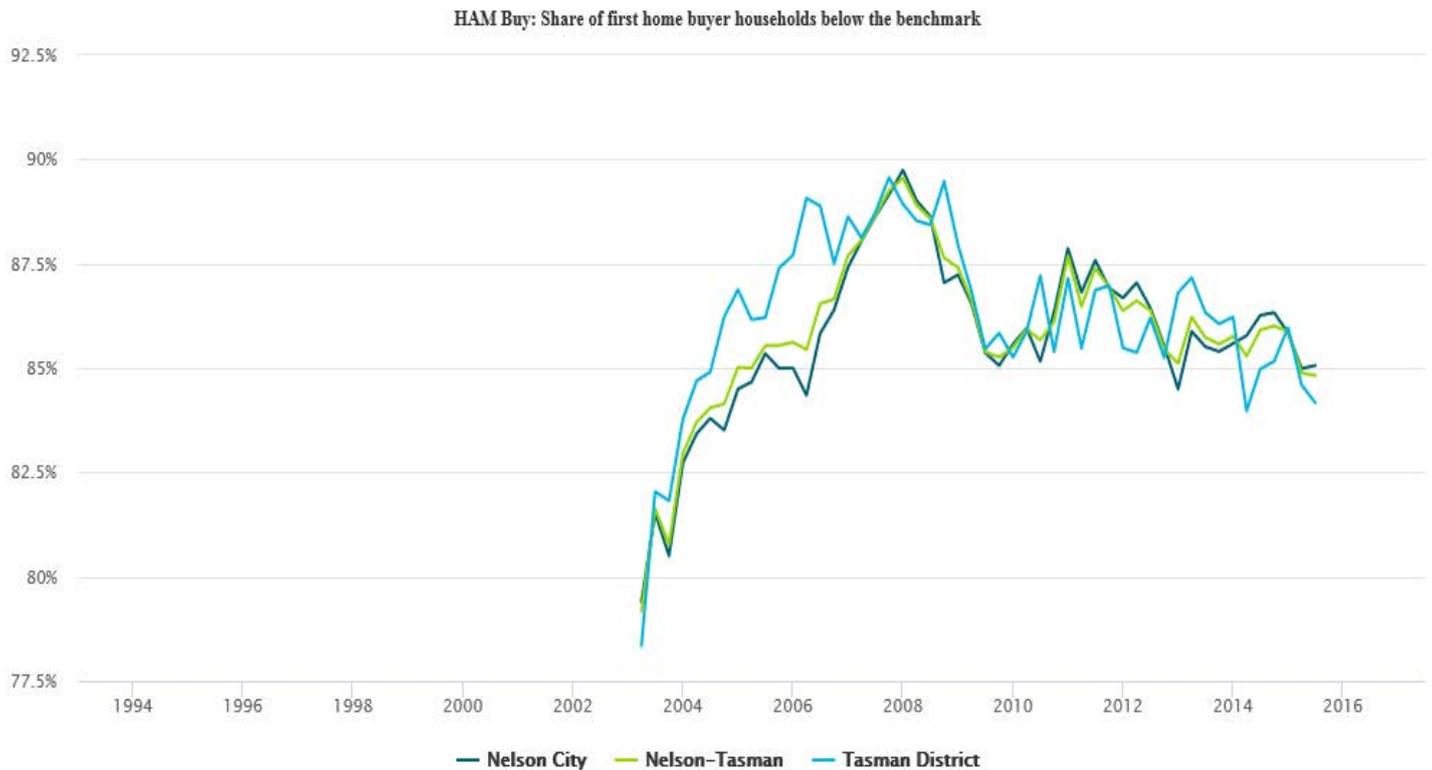
Other factors, such as the availability and cost of mortgage finance, may also affect the price that people are willing and able to pay for a home without directly increasing rents.

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.

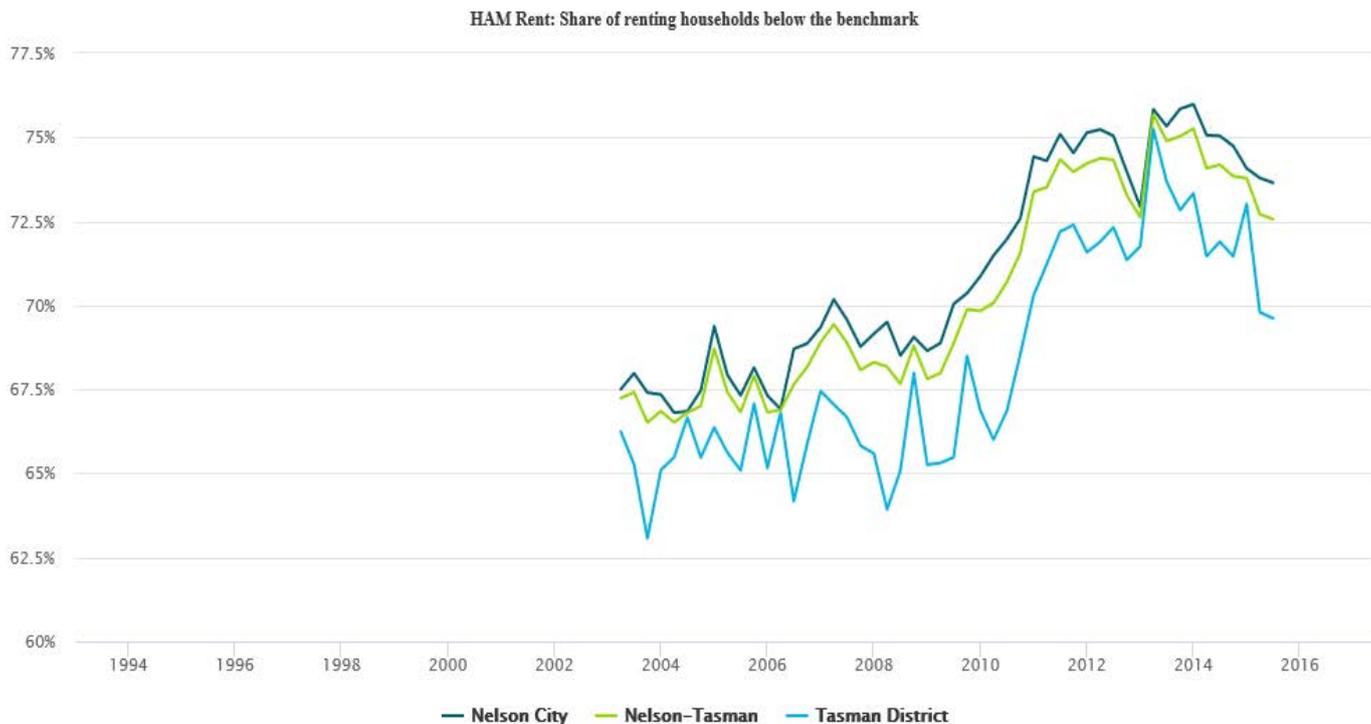
For potential home-owning households, HAM Buy calculates what their residual income would be after housing costs if they were to buy a modest first home in the area in which they currently live. Their residual income is compared to a 2013 affordability benchmark (the median residual income, adjusted 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 5: HAM Buy: Share of first-home buyer households below the affordability benchmark, Nelson-Tasman combined, Nelson City, Tasman District

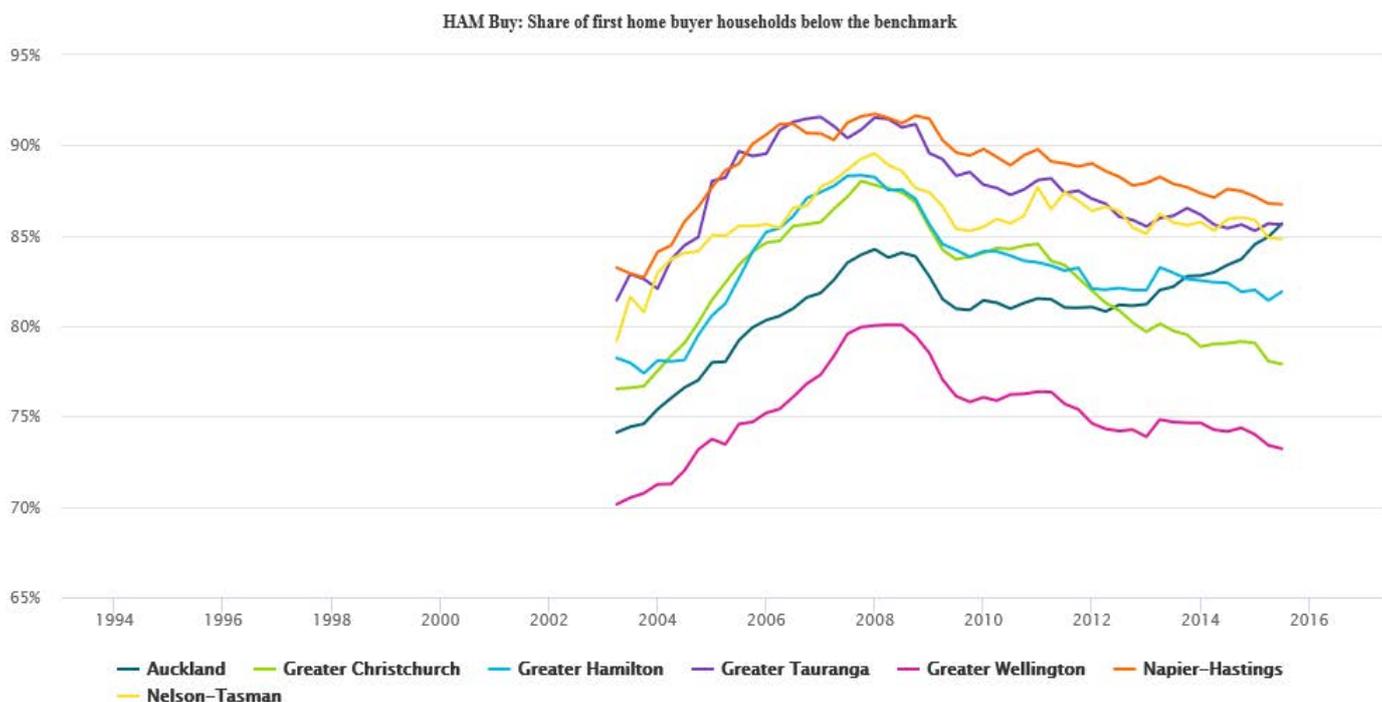
The HAM Buy measure for Nelson and Tasman Districts suggests that housing affordability was at its worse in late 2007 but, since 2010, has fluctuated between 84% and 88% of first home buyer households below the 2013 national benchmark of affordability. The measure indicates that at June 2015, 85% of first-home buyer households in Nelson, and 84% 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 6: 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 June 2015, 74% of rental households in Nelson, and 70% for Tasman, cannot comfortably afford typical rents, being below the 2013 national affordability benchmark.

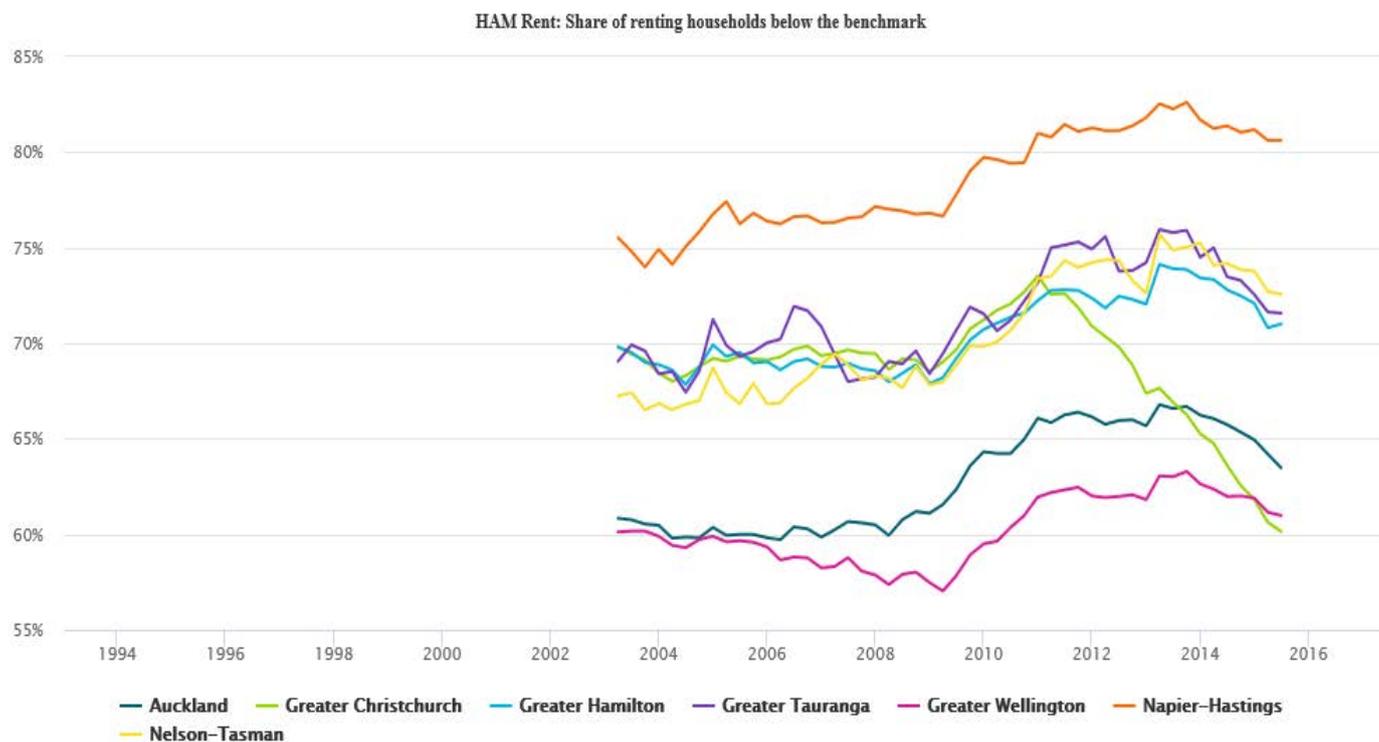
Benchmarking with other Expanded Urban Areas



Graph 7: HAM Buy: Share of first-home buyer households below the affordability benchmark, Expanded Urban Areas

Comparing affordability across a number of expanded 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 Tauranga, but is worse than in Hamilton, Christchurch and Wellington.

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



Graph 8: HAM Rent: Share of renting households below the affordability benchmark, Expanded Urban Areas

Massey University aggregate housing affordability index

HOME AFFORDABILITY INDEX	Region	Nov 2016	Feb 2017	PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
				Improvement	Decline
	Northland	19.3	20.1	-	9.2%
	Auckland	35.0	32.3	4.4%	-
	Waikato/Bay of Plenty	21.8	20.6	-	0.6%
	Hawke's Bay	15.6	15.8	5.3%	-
	Taranaki	14.8	13.1	9.9%	-
	Manawatu/Whanganui	12.4	11.7	4.4%	-
	Wellington	19.6	19.9	-	2.3%
	Nelson/Marlborough	22.0	20.6	0.6%	-
	Canterbury/Westland	19.4	18.4	10.8%	-
	Otago	14.4	14.8	-	7.5%
	Central Otago Lakes	32.4	35.0	-	11.2%
	Southland	10.7	9.6	11.0%	-
	New Zealand	22.4	20.8	2.2%	-

The Massey University aggregate housing affordability index (March 2017) shows that the Nelson-Tasman-Marlborough regional cluster is experiencing affordability challenges. While the index improved by 0.6% in the previous 12 months, this was less than the national improvement of 2.2%. Based on this index the region remains 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. Unlike the HAM measure, the income data is for both renting and owner-occupier households. The mortgage interest rate figures are drawn from Reserve Bank data. 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.

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 Main Urban Area.

4. Building Consents Issued – Number of new dwelling units

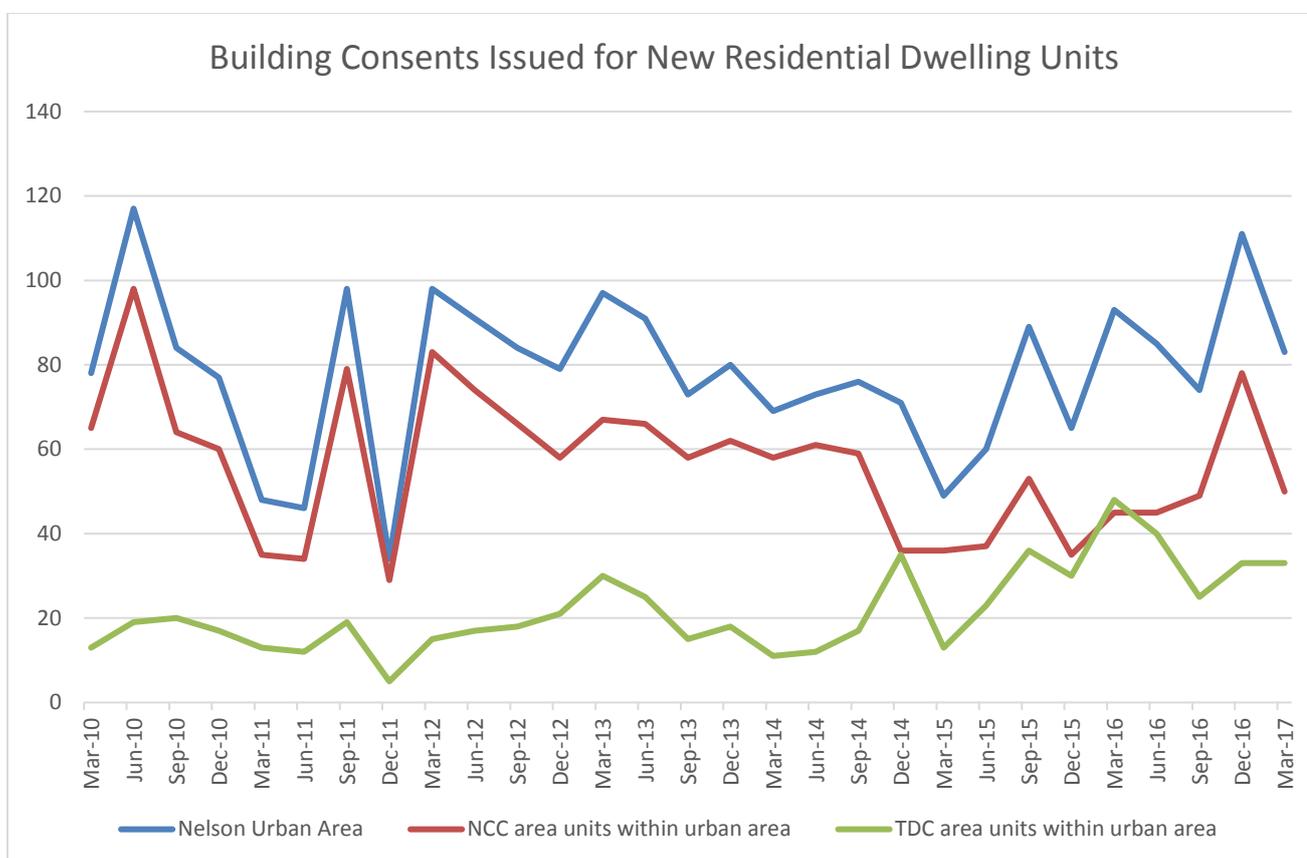
NCC: Building consents for new dwellings in the March 2017 quarter include 10 new retirement village units at 188 Songer St, Stoke.

The average size of new residential dwellings (excluding the retirement village units) was 197m².

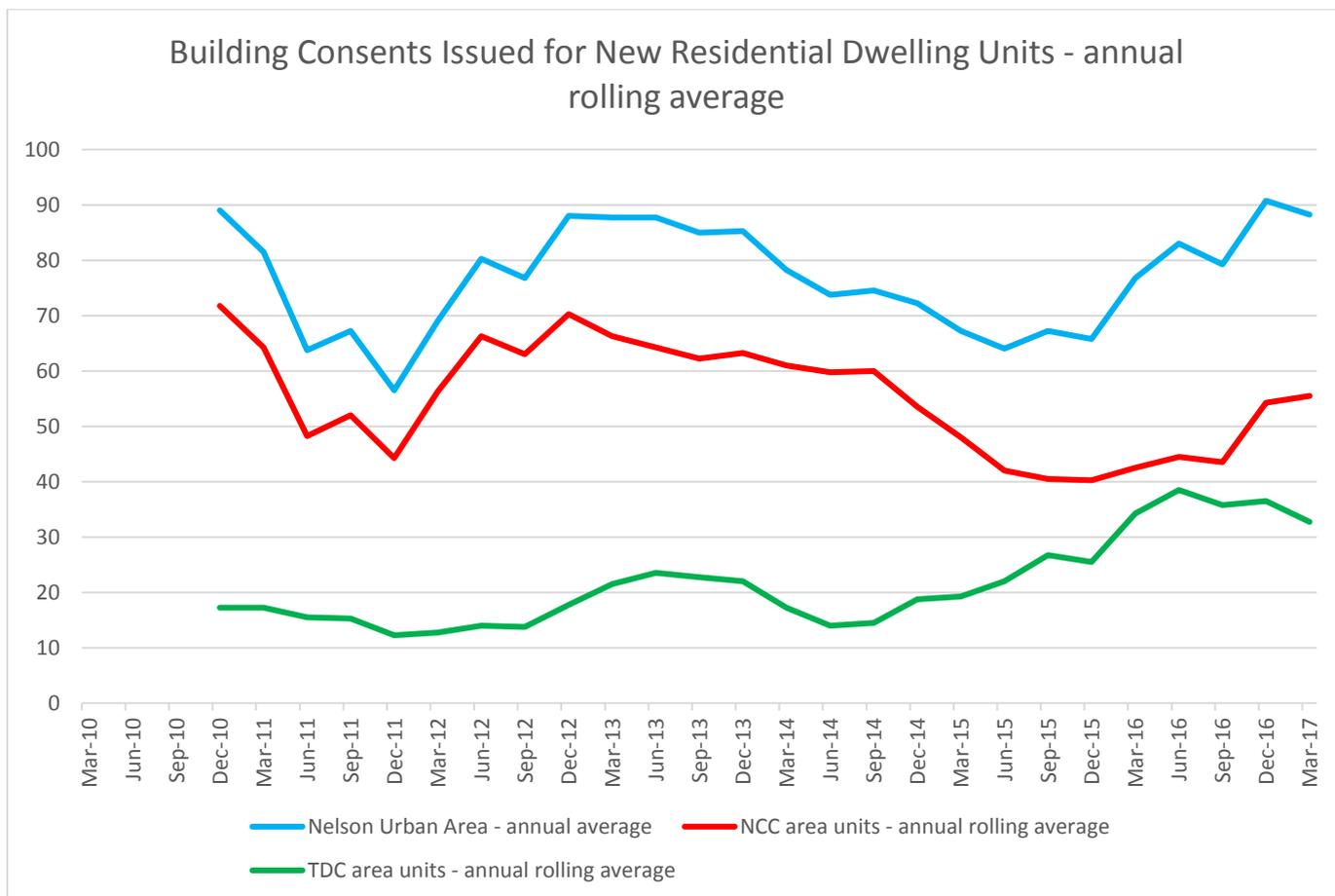
Building consents in the December 2016 quarter included six new units in the Special Housing Area in Orchard St, Stoke.

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

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 knowledge of developments, in addition to recent Special Housing Areas.



5. Yield of serviced residential sites from residential zoned land

Numbers of new sections can vary significantly between quarters.

However, Nelson has seen 73 new sections created in the March 2017 quarter which is higher than any other quarter in the last few years.

Tasman’s figures represent the area units which fall within the Nelson Main Urban Area only which essentially is Richmond and Hope.

	Quarter						
	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
NCC area units within urban area	36	13	44	32	53	4	73
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)

Resource Consents for residential units

NCC: In the March 2017 quarter, there were ten resource consents for residential subdivisions, including two for Special Housing Areas (SHAs). These consents were to create 104 new residential lots, of which 79 were in SHAs and 2 were lifestyle blocks (rural residential). The two SHAs granted consent were for 37 units at 33 Beach Rd, Tahunanui and 42 units at 16 Paru Paru Rd, Nelson.

TDC has only started monitoring residential units by resource consent from April 2017 onwards.

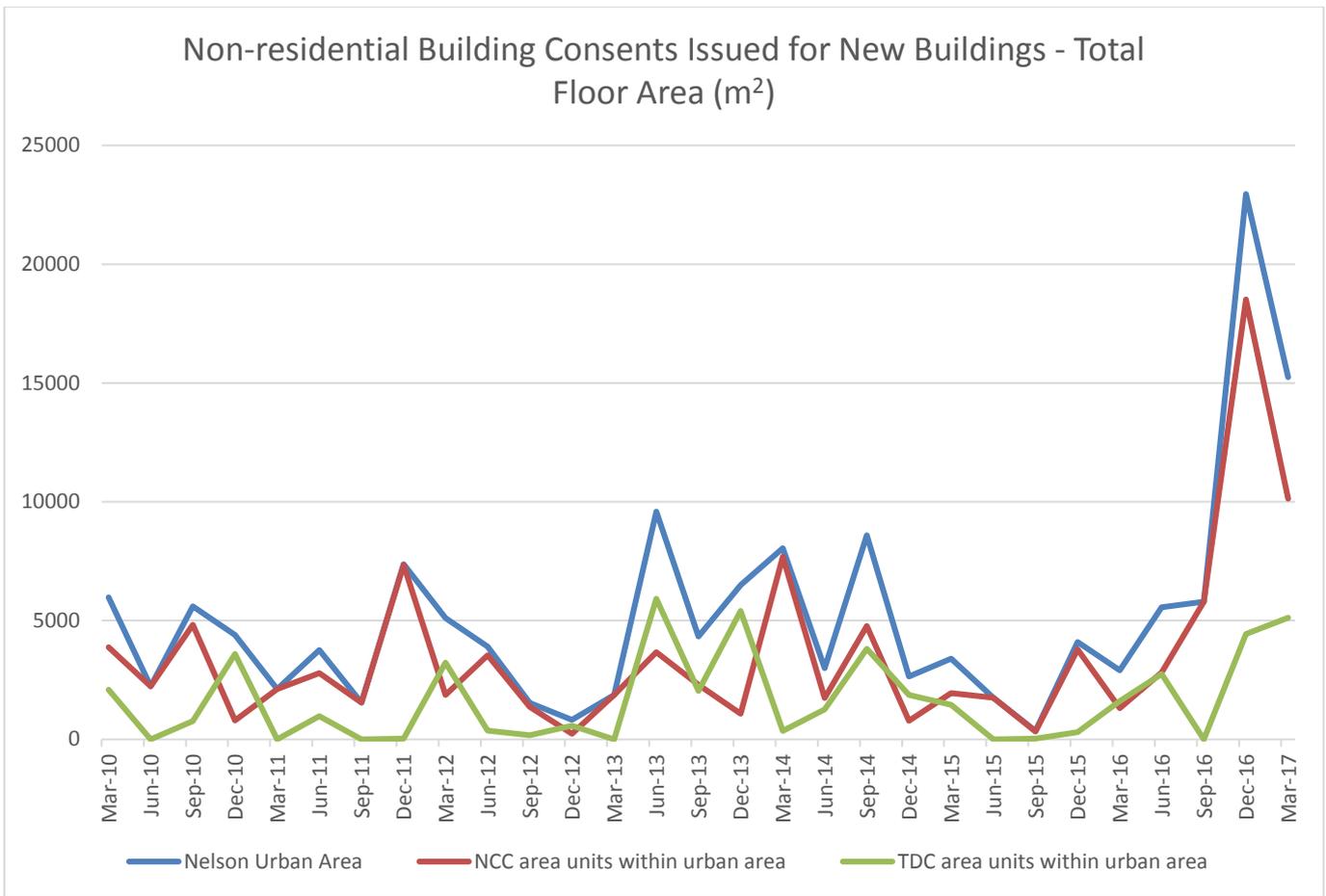
Non-residential Development Trends

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

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

NCC: In the March 2017 quarter, Nelson has consented 10,126m² of new commercial and industrial buildings. This included the new airport terminal (5,000m²). The high value in the December 2016 quarter was largely due to the consent for the new wine warehouse at Port Nelson (15,230m²).

TDC: In the March 2017 quarter, Tasman has consented 5,117m² of new commercial and industrial buildings in Richmond. This included a large distribution centre building at 750 Lower Queen Street, a new building in Stratford Street and foundations for a new dry store in Beach Road, Richmond.



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.

7. 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 March 2017 quarter for new industrial or commercial sites.

8. Resource Consents for industrial/commercial units

NCC: In the March 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 has only started monitoring business units by resource consent from April 2017 onwards.