



## National Policy Statement on Urban Development Capacity Nelson-Tasman Monitoring Report July-December 2017



**March 2018**

## **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 third of the 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 July-December 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 projections<sup>1</sup>, 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 9,400 people between 2018 and 2048, 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 11% during the year ended December 2017, compared with a 14% 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.
- **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

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<sup>1</sup> 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.

the cost of purchasing a house in the typical first-home price bracket<sup>2</sup>, and two-thirds of those household could also not comfortably afford typical rents in both districts.

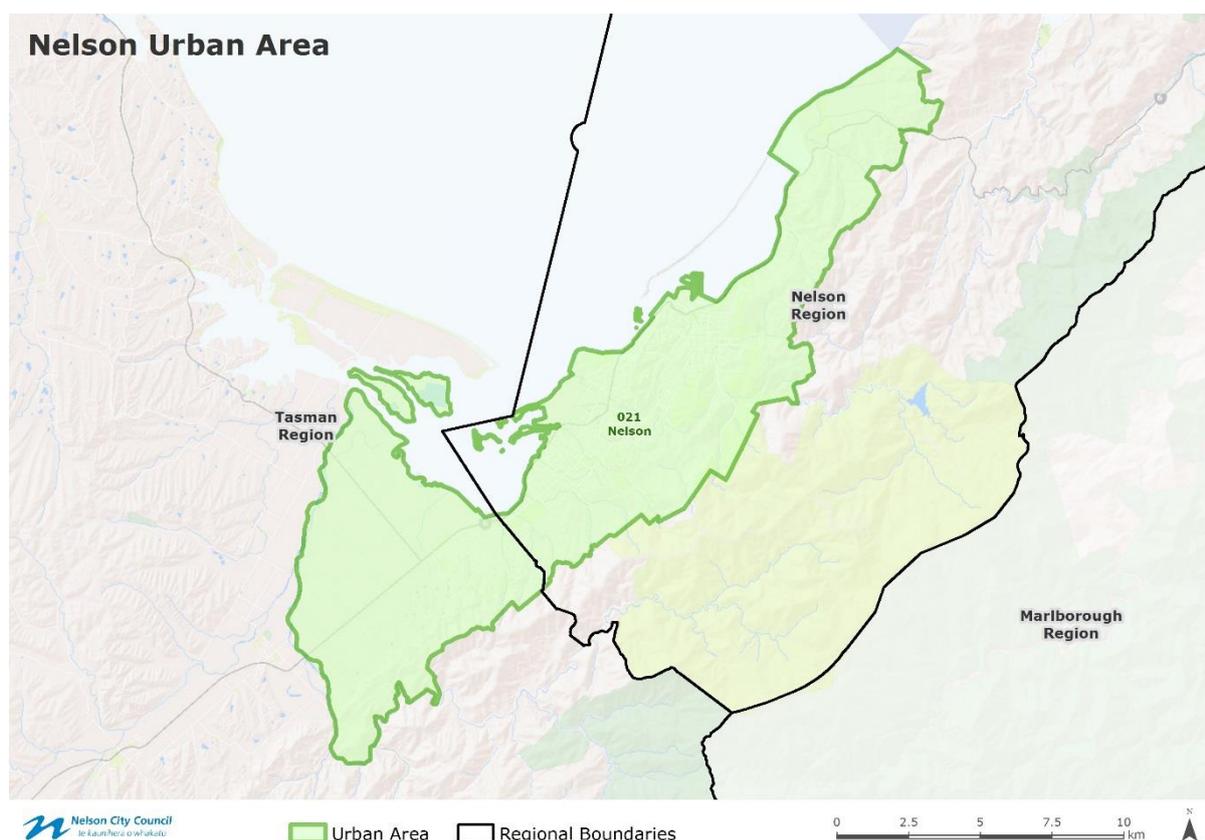
- Other affordability indices (Massey University aggregate housing affordability index) (December 2017) show that the Nelson-Tasman-Marlborough regional cluster continues to experience affordability challenges. Based on this index the region remains the third least affordable region in the country behind Central Otago Lakes and Auckland.
- **Social housing need:** Since December 2015 applicants waiting on the Ministry for Social Development's social housing register have more than quadrupled for Nelson and have tripled for Tasman. The number on the register currently sits at 118 for the combined Nelson/Tasman district.
- **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 301 new sections created in the Nelson/Tasman Main Urban Area in the year ended December 2017, compared with 186 in the previous year.
- The number of new residential sections being created in Nelson in the last quarter was around average, but still resulted in an increase on a 12-month basis.
- In Richmond there were 64 new residential section created in the December 2017 quarter which is a sharp increase from the zero count for the previous two quarters.
- 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. Once the additional affordability measure are finalised with MBIE these will be presented.

## **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.

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<sup>2</sup> 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.



**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.<sup>3</sup> 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 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 the year.

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.

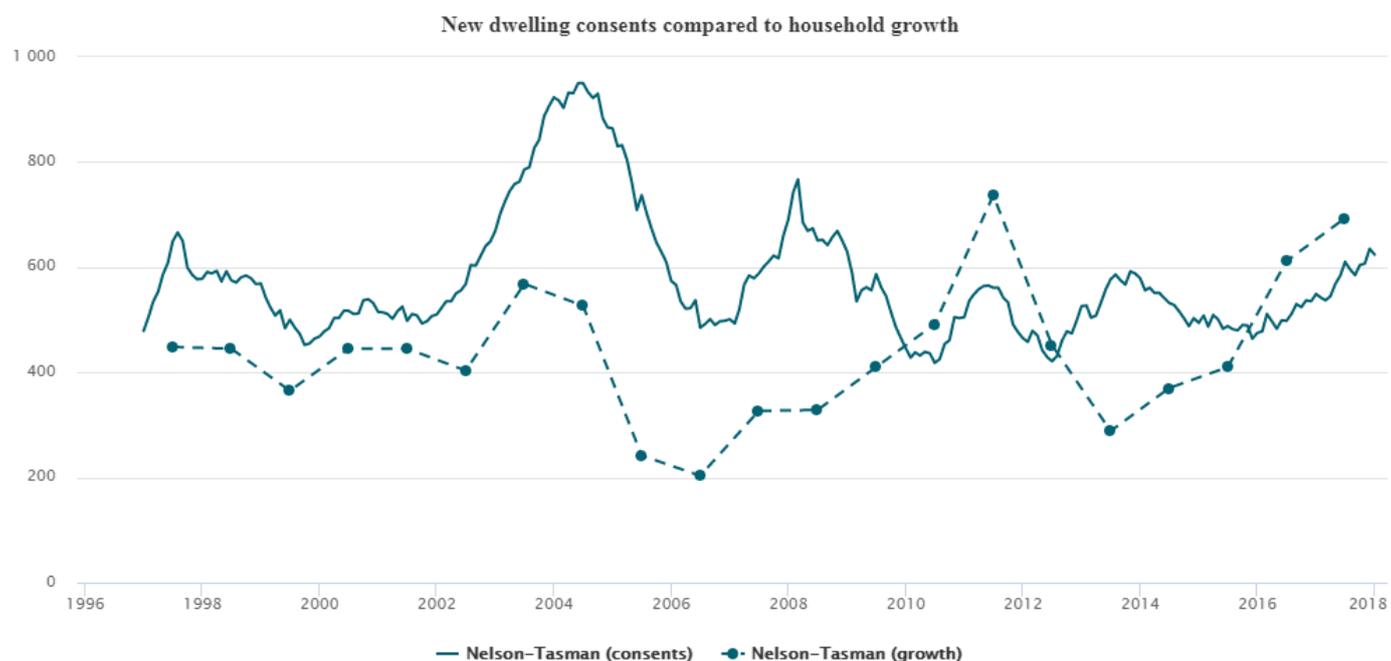
## **Residential Development Trends**

### **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. From December 2017 further indicators have been added including price efficiency indicators. Tasman District Council is still in discussions with MBIE about some of the data assumptions behind these indicators and hence they will be included in future monitoring reports. At this stage, the data includes mainly housing indicators, with more business indicators to follow.

<sup>3</sup> 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 July - December 2017

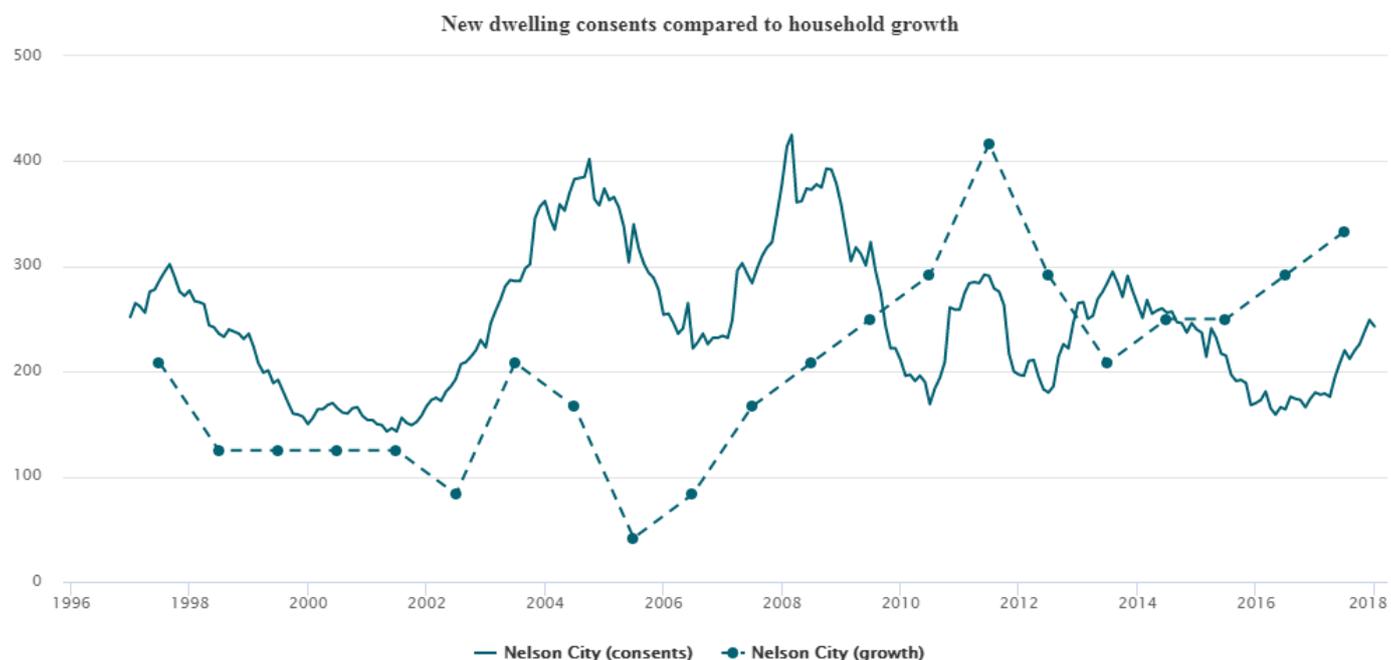
## 1. Demand and Supply



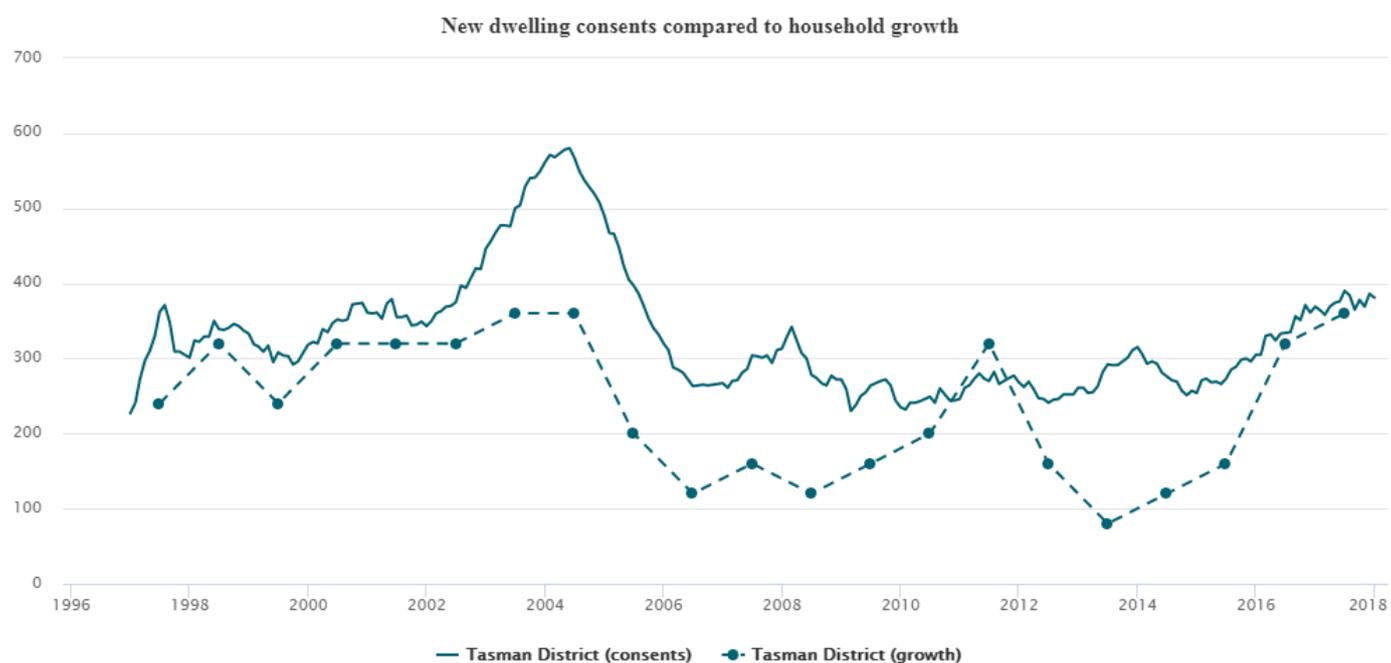
**Graph 1. New dwelling consents compared to household growth – Nelson-Tasman Regions Combined.**

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**



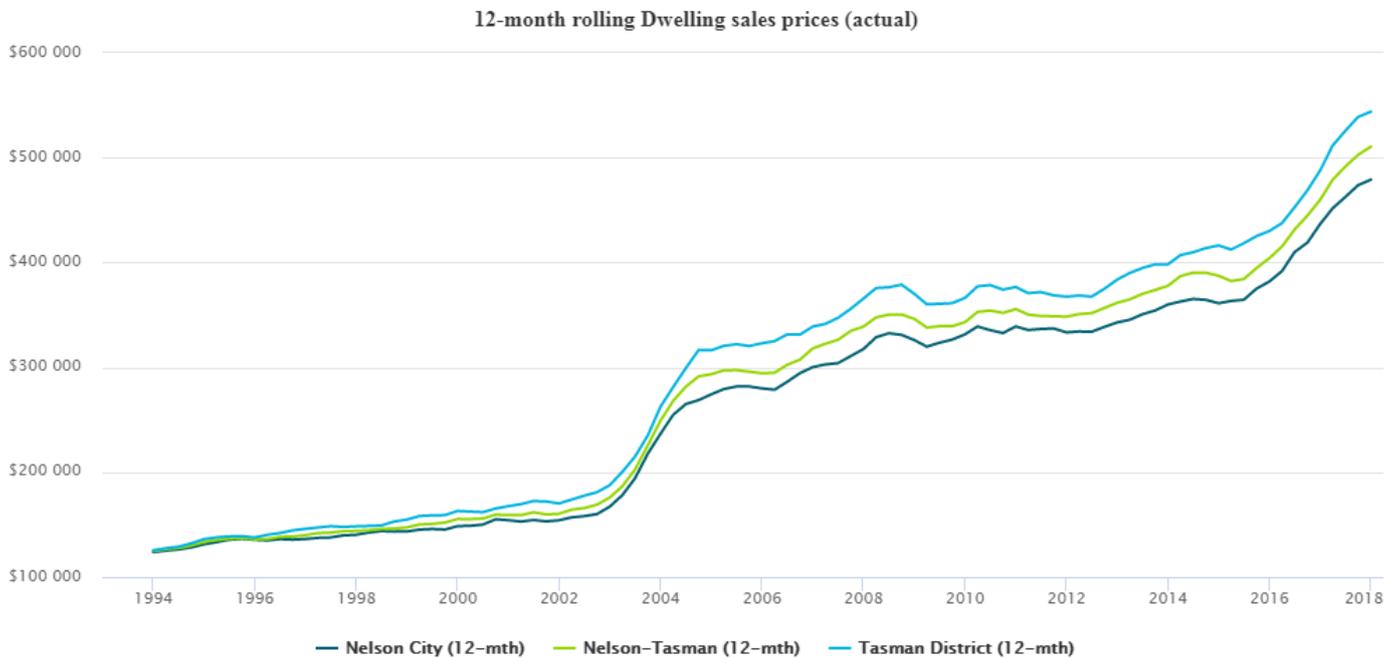
**Graph 3. New dwelling consents compared to household growth –Tasman District**

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 nine 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 December 2017 was \$479,033 in Nelson and \$543,875 in Tasman.

Across the combined Nelson-Tasman Districts area, prices increased 11% during the year ended December 2017, compared with a 14% increase in the year ended December 2016, and a 4% increase in prices in the year ended December 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



**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.

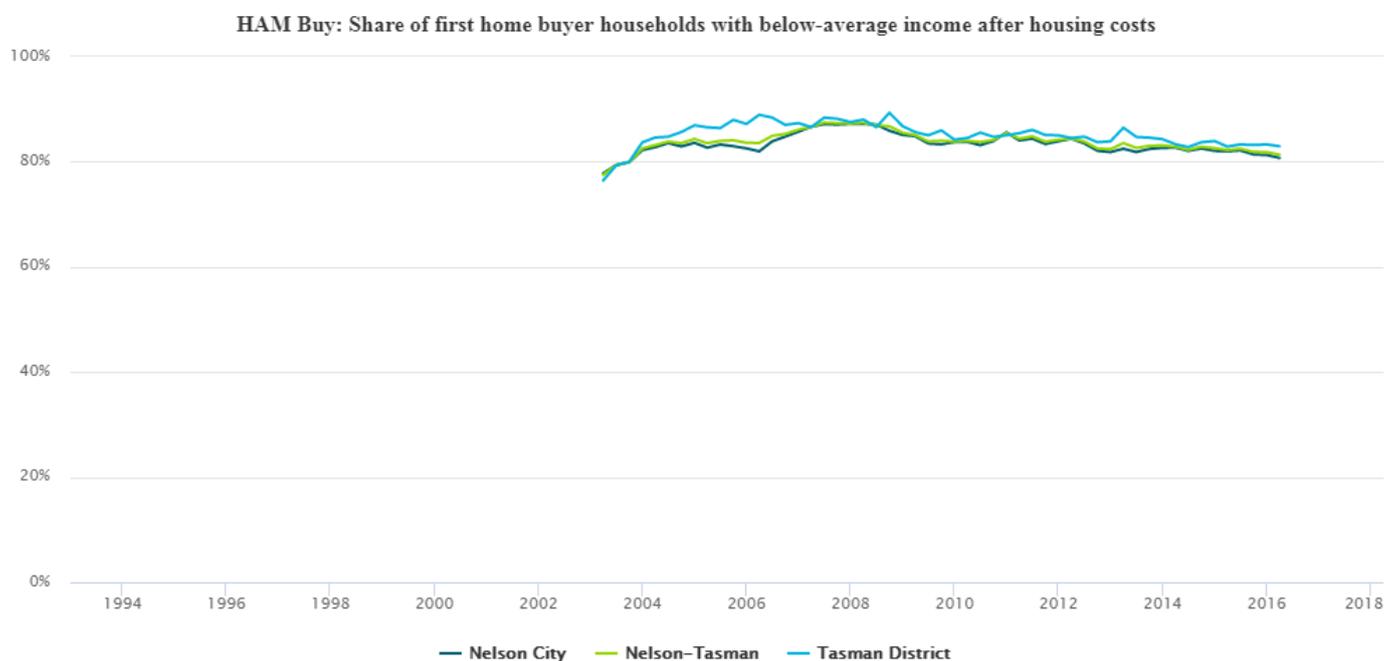
Other factors, such as the availability and cost of mortgage finance, may also affect the price that people are willing and able to pay for a home without directly increasing rents.

### 3. Housing affordability

MBIE has 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. The HAM data available to councils has not been updated since the last monitoring report. The previous data and summary has been included in this report for completeness.

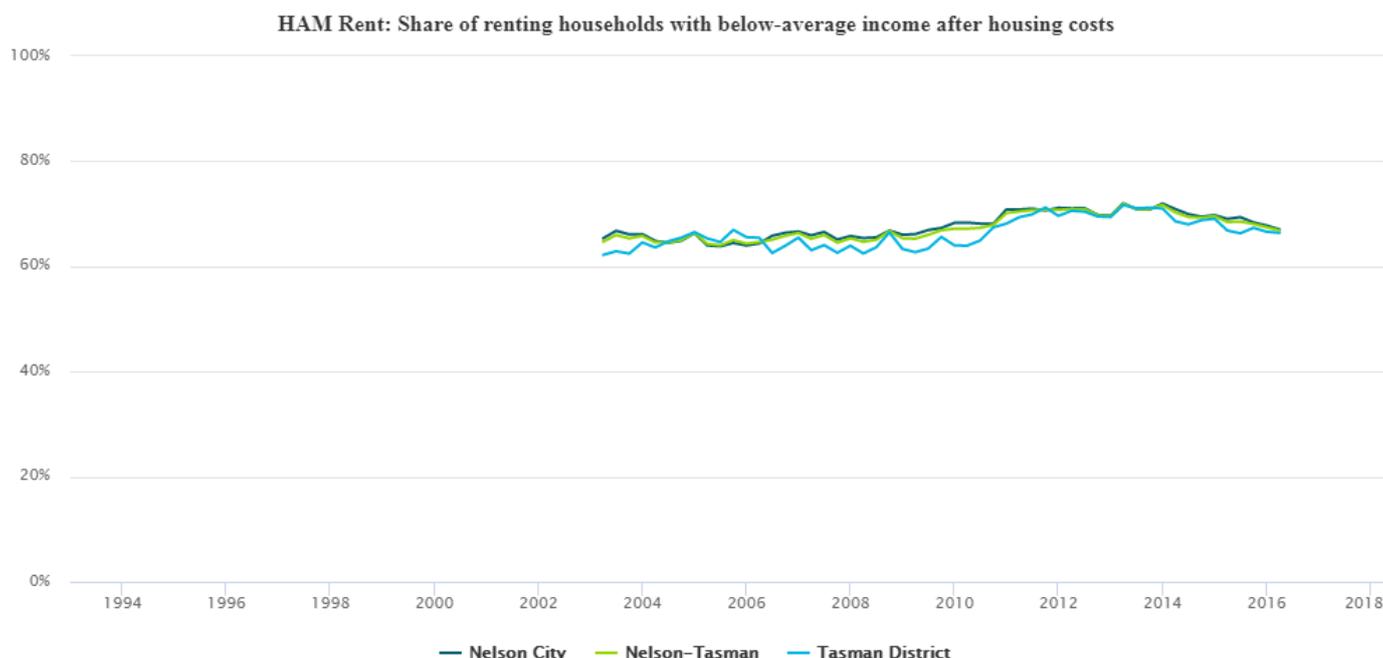
For potential home-owning households, HAM Buy calculates what their residual income would be after housing costs if they were to buy a modest first home in the area in which they currently live. Their residual income is compared to a 2013 affordability benchmark (the median residual income, adjusted 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 increasing<sup>4</sup> 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.

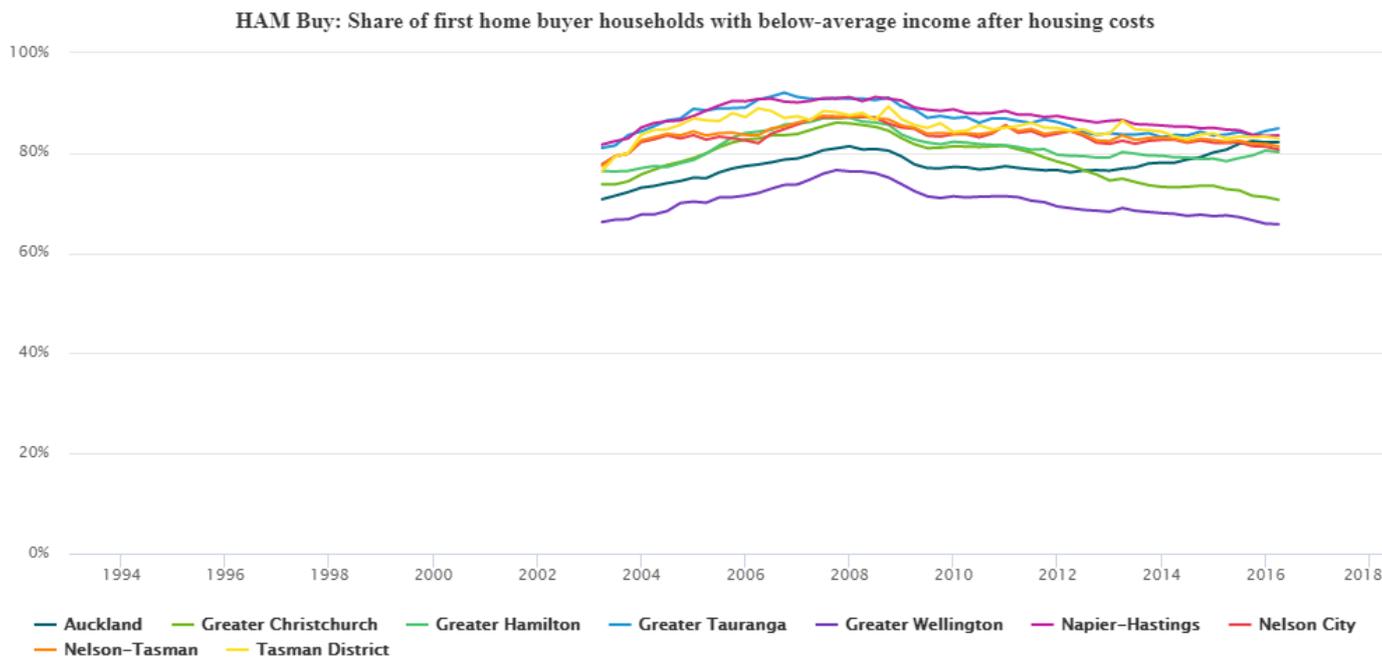
Building costs for one storey houses in Christchurch (nearest geographical region) in Q3 2017 range from \$1,625-1,825/m<sup>2</sup> for 90-130 m<sup>2</sup> properties; and \$1,875-2,075/m<sup>2</sup> for 100-250m<sup>2</sup> properties.

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

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

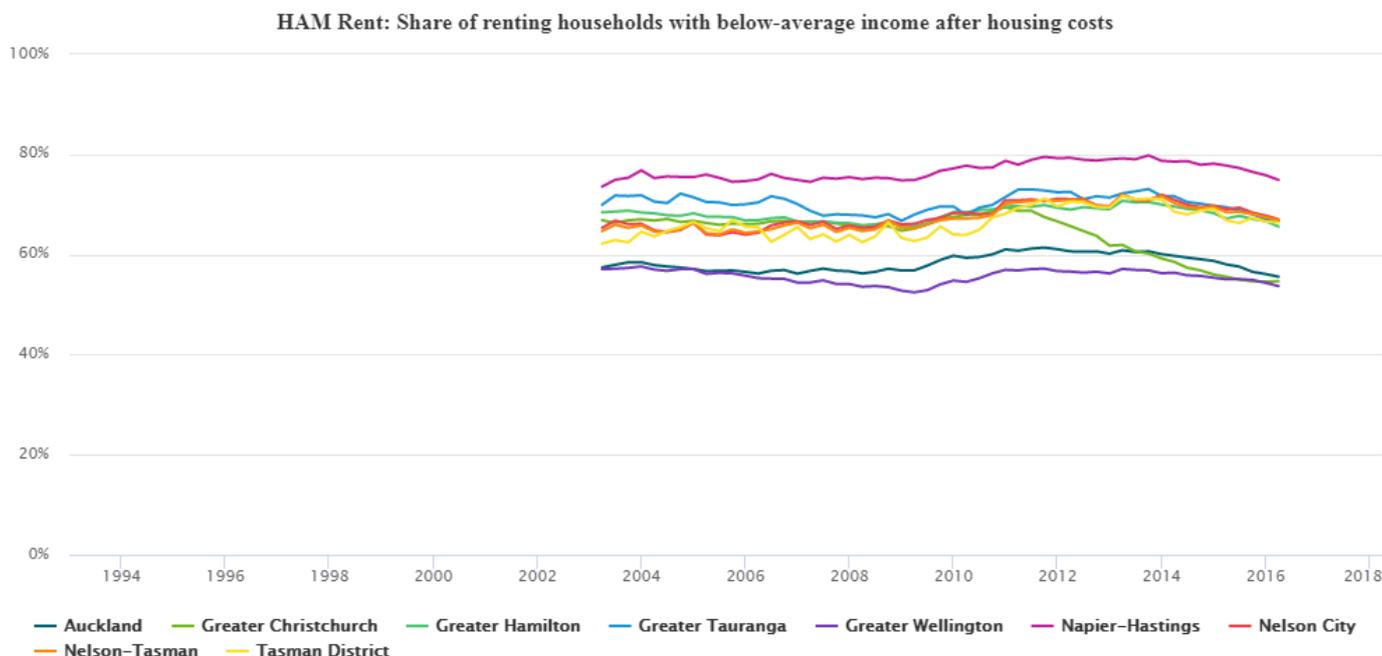
<http://www.stuff.co.nz/business/property/92322694/construction-costs-continue-to-rise-in-2017-colliers>

## **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				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	November 2016	August 2017	November 2017	Improvement	Decline	Improvement	Decline
Northland	19.84	20.87	20.98		5.7%		0.5%
Auckland	35.89	36.15	36.94		2.9%		2.2%
Waikato/Bay of Plenty	22.36	24.05	24.03		7.5%		0.0%
Hawke's Bay	15.99	19.11	18.81		17.6%	1.6%	
Taranaki	15.18	13.91	15.27		0.6%		9.8%
Manawatu/Whanganui	12.77	13.82	14.61		14.4%		5.7%
Wellington	20.07	20.69	22.47		12.0%		8.6%
Nelson/Marlborough	22.56	24.32	24.20		7.3%	0.5%	
Canterbury/Westland	19.93	19.46	20.85		4.6%		7.1%
Otago	14.76	15.98	16.39		11.0%		2.6%
Central Otago Lakes	33.25	40.38	40.87		22.9%		1.2%
Southland	11.00	11.87	12.52		13.9%		5.5%
New Zealand	22.96	24.05	24.14		5.1%		0.4%

**Table 1: House affordability Index (Massey University)**

The Massey University aggregate housing affordability index (November 2017) shows that the Nelson-Tasman-Marlborough regional cluster continues to experience affordability challenges.

The index this quarter shows a 7.3% decline in home affordability in the last 12 months in Nelson/Marlborough - signalling a slowing in rate of decreasing affordability compared to the 23.2% on the June 2017 quarter. 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 5.25% 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 December 2017 this shows for Nelson there are 78 applicants waiting on the register and for Tasman there are 40 applicants. These figures have grown respectively since June 2017 by 23 applicants and 1 applicants. Priority A applicants are people considered 'at risk' and includes severe and persistent housing need that must be addressed immediately. In Nelson 44 of the 78 applicants are priority A and in Tasman 27 of the 40 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.

The Housing Minister announced in March 2018 that 20 new state houses will be built in the Nelson/Marlborough region. Construction is planned to commence immediately and they are expected to be available by mid-2018.

## **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.

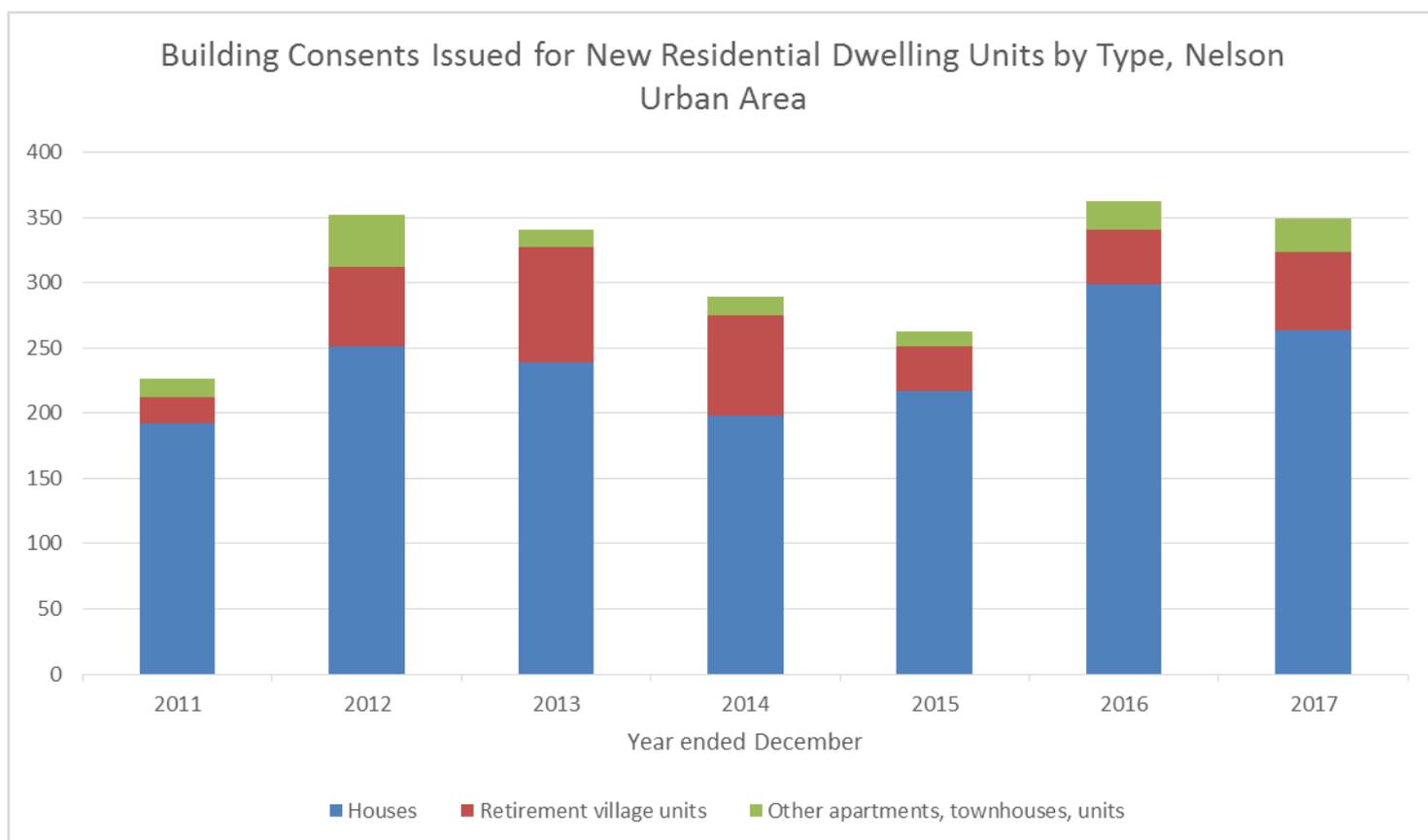
### **4. Building Consents Issued**

Table 1 details the number of new dwellings granted building consent every quarter over the last 18 months.

	Quarter					
	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Nelson/Tasman Main Urban Area	74	111	83	95	96	75
NCC area units within Main Urban Area	49	78	50	63	62	54
TDC area units within Main Urban Area	25	33	33	32	34	21
NCC – all District	50	79	51	63	62	54
TDC – all District	97	101	83	100	110	78

**Table 2. Building consents for new dwellings, actual numbers (Statistics New Zealand)**

Graph 10 below summarises the number of new dwellings granted building consent by dwelling type in each year since 2011.



**Graph 10: Building consent by residential building type**

The majority of new dwellings in the Nelson/Tasman Main Urban Area continue to be separate houses while 17% were retirement village units in the last year.

## **5. Yield of serviced residential sites from residential zoned land**

On an annual basis, there were 301 new sections created in the Nelson/Tasman Main Urban Area in the year ended June 2017, compared with 186 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 38 sections created in the September 2017 quarter and 35 in the December 2017 quarter. On a 12-month basis, there were 174 sections created in the year ending December 2017, compared with 133 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. There were no new sections created in Richmond and Hope in the September 2017 quarter, but 64 sections created in the December 2017 quarter. On a 12-month basis there were 127 sections created in the year ending December 2017 in Richmond and Hope, compared with 53 in the previous year.

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

	Year ended December 2016	Year ended December 2017
Nelson/Tasman Main Urban Area	186	301

**Table 3: Summary of residential resource consents.**

## 6. Resource Consents for residential units

NCC: In the six months to the end of December 2017, there were 22 resource consents for residential subdivisions. These consents were to create 462 new residential lots.

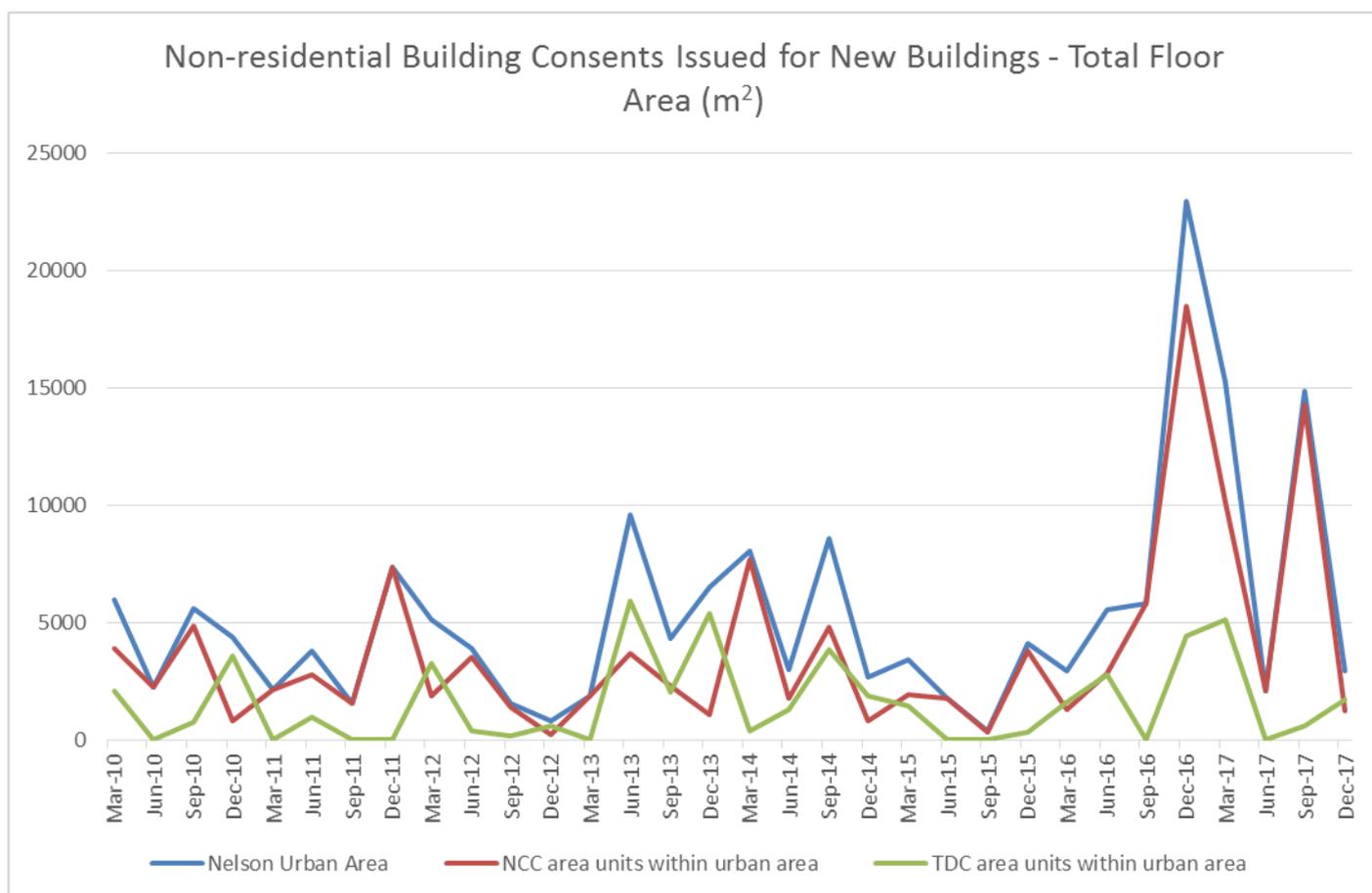
TDC: In the September 2017 quarter, there were 29 resource consents for residential subdivisions, district wide, totalling 94 lots. Within the "main urban area" there were six resource consents, totalling 25 lots. In the December 2017 quarter there were 16 resource consents for residential subdivisions district wide, totalling 230 lots. This included a large subdivision at Moutere of 135 lots. Within the "main urban area" there were 8 resource consents for residential subdivisions, totalling 31 lots.

## Non-residential Development Trends

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

	Quarter					
	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Nelson Main Urban Area	5793	22953	15243	2100	14861	2910
NCC area units within urban area	5793	18516	10126	2076	14279	1206
TDC area units within urban area	0	4437	5117	24	582	1704
All Nelson City	5793	18516	10126	2076	14279	1206
All Tasman District	1227	6588	5782	2185	4348	4620

**Table 4: Summary of non-residential resource consents.**



**Graph 11: Non-residential building consents by quarter**

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 six months ending Dec 2017 for new industrial or commercial sites.

TDC: for the six months ending Dec 2017, there were no titles issued for commercial/industrial subdivision.

## **9. Resource Consents for industrial/commercial units**

NCC: In the December 2017 quarter, there were six commercial units consented for unit title subdivision.

TDC: TDC: In the six months ending Dec 2017, there were no resource consents for commercial/industrial subdivision, either district wide or within the "main urban area".