National policy statement on urban development capacity

Kāpiti Coast District Council Quarter 3 Monitoring Report

March 2018

Kāpiti Coast
DISTRICT COUNCIL
Me Huri Whakamuri, Ka Titiro Whakamua

Contents

Executive summary

This third quarter NPS-UDC monitoring report provides an update and analysis of changes across the housing market from the last quarter (1 December 2017 – 28 February 2018). This includes an update on consents activity and market indicators. This report also includes information on some of the new price efficiency indicators and other information of interest identified across the last three month period.

Key points of interest from this report include:

- The number of houses sold in Kāpiti is slowing, but the average value has continued to increase.
- Despite spanning the Christmas holidays, building and resource consent activity has been consistent with the last quarter and comparable to the same period last year.
- Analysis of previous Census and Linked Employer-Employee Data has identified some interesting trends with regards to household incomes in Kāpiti. This includes:
    - commuters have a higher average household income than those living and working in the district;
    - Kāpiti has a higher proportion of superannuation and investment income compared to many places in New Zealand; and
    - a high proportion of the workforce is self-employed and earn marginally more than waged employees.
- The Ministry of Social Development recently announced plans to acquire an additional 233 public houses in Kāpiti as part of its plans to 2020.
- MBIE published new price efficiency indicators on price/cost ratio and rural/urban land differentials for medium growth councils (details are included in the report).

A snapshot of indicator activity for the last quarter is summarised below:

Indicator	Last quarter	Context
Building consent applications issued	Tracking	138 consents issued with a total value of $37,401,500
Resource consent applications granted	Tracking	54 consents issued - 40 residential - 14 non-residential - Indicating a net increase of 32 to dwelling stock
Dwelling stock	Increasing	Baseline increased 16 dwellings to 21,910 as at 31/12/17
House sales	Decreasing	Decreasing to 275 as at 31/12/17
Dwellings sale volume as percentage of stock	Decreasing	Down from 1.256% to 1.255% in the last 3 months of 2017
House values	Increasing	Increasing to an average of $503,675 as at 31/12/17
HAM Buy: Share of first home buyer households with below-average income after housing costs	No update provided in latest dashboard	The recent trend and last period reported a slight improvement.
Nominal mean rent	Decreasing	Generally increasing but last period saw a drop from $397 per week down to $387 per week).
HAM Rent: Share of renting households with below-average income after housing costs	No update provided in latest dashboard	The recent trend and last period reported a slight improvement
Land value as percentage of capital value	Increasing	Maintaining 47% (as of 30/09/2017)
Average land value of a dwelling	Increasing	$265,124 (as of 30/09/2017) increasing since 2015

National Policy Statement on Urban Development Capacity

Kāpiti Coast District Council - Quarter 3 Monitoring Report March 2018

Introduction

This is the third quarterly monitoring report implementing the National Policy Statement on Urban Development Capacity (NPS UDC). The report provides updated data and analysis of changes to the housing market from the last quarter (1 December 2017 to 28 February 2018).

This report includes changes to market and price efficiency indicators identified under the NPS-UDC; and other information and research released over the last three month period.

Regular monitoring supports Council's work to understand and develop an assessment of development capacity and a fit-for-purpose evidence base for Council's decision-making on infrastructure investment and the future release of land to meet development needs.

Context on Kāpiti's projected future growth, its make-up and housing pressures is available from previous monitoring reports available at: www.kapiticoast.govt.nz/Our-District/The-Kapiti-Coast/urban-development-capacity. They cover:

First Quarterly Report - September 2017: provides context around future population growth and changes in demographics out to 2043. Housing affordability is identified as an issue in Kāpiti, particularly for existing residents on low incomes. Increasing migrants from Wellington and increasing house prices are identified as contributing to this pressure.

Second Quarterly Report - December 2017: provides further information on the challenges and opportunities for Kāpiti around new transport links, and the future needs for smaller housing to provide for the future demographic, including an increase in single and couples without children. Recent research on the amount of land available for housing and business development in Kāpiti was also covered - ahead of the current assessment under the NPS-UDC.

Update on the housing and business development capacity assessment

Kāpiti Coast District Council is working with Wellington City Council, Upper Hutt City Council, Hutt City Council and Porirua City Council to produce an assessment of housing and business development capacity across the Wellington medium growth area. Under the NPS-UDC, the assessment should be completed by the end of December 2018.

Work is currently underway to develop and input GIS and planning information to help identify and model the current development capacity for the Kāpiti area. This process will help test and refine earlier assessments of development capacity in more detail, including consideration of the overall feasibility of potential development.

Council has also commissioned work from economic consultants Sense Partners, who are assessing current and future business needs across Kāpiti and other Wellington urban councils. This work is expected to be completed in April 2018. Both pieces of work will be used alongside information on demand, growth and market and price efficiency indicators, to inform the overall assessment of development capacity.

Recent news and research

Public housing in the Wellington Region

The Ministry of Social Development (MSD) recently published a set of *Housing Regional Factsheets – 2017.* Each factsheet gives the housing sector a localised view of the progress MSD is making to bring on additional supply, and how they support people with housing and accommodation.

The factsheets set out MSD plans to purchase an additional 233 public houses in the Kāpiti area by June 2020. This is part of MSD's plan and housing supply targets to meet significant unmet demand for public housing in specific areas in New Zealand. The factsheet also identifies transitional housing in Kāpiti increasing from one to four places over the same period. Factsheets are available at www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/quarterly-factsheets/2017.html.

Further detail on household incomes

Further analysis of Kāpiti income and employment data from the Census and Linked Employer-Employee Database has been undertaken to help better understand housing choices and affordability for Kāpiti residents. Previous research has already identified Kāpiti as having a high proportion of self-employed workers and workers who commute out of the district, primarily to Wellington. It has also identified growth in the number of residents over 65 years of age. Interestingly, these factors are relevant when looking at trends and patterns in household incomes for Kāpiti; including:

- commuters make a higher average income than those who live and work in the district;
- Kāpiti has a higher than average level of superannuation and investment income than many other places across New Zealand; and
- a high proportion of the workforce is self-employed and earn marginally more than waged employees.

This information helps to further understand the make-up, drivers, and influences of participants across Kāpiti's housing and rental markets.

GROWTH TRENDS

Consent numbers for this quarter are consistent with those reported for the last quarter, despite spanning the Christmas holiday period, and are comparable to consent activity for the same period last year.

Building consents

Data on building consents helps identify development activity across the district. Between 1 December 2017 and 28 February 2018, 138 consents related to new buildings and alterations to buildings were issued. While the number of new builds were up from the last quarter (from 49 to 59), overall numbers were consistent with the last quarter and similar to the same period for 2016. Detail on the number and type of consents issued can be found in Appendix One.

Resource consents

Between 1 December 2017 and 28 February 2018, Council granted 54 resource consents. This included 26 land use consents,16 subdivision consents and 12 resource consents for deemed permitted activities that involved a boundary activity. This category is where there is a minor breach of boundary rule (e.g. a new house might be proposed within the 3 metre setback required) and affected neighbours provide their consent/approval, enabling it to proceed as a permitted activity. Overall, 40 of the consents issued related to residential activities and information from the consents suggests that these applications have the potential to yield 32 net additional dwellings.

During that same period, 14 non-residential resource consents were granted. This includes activities in commercial, industrial, business and rural zones. These consents relate to changes to business conditions (operating hours and parking), construction of new buildings, and undertaking earthworks.

The table of residential and non-residential consents from 1 December to 28 February 2018 can be found in Appendix One.

MARKET INDICATORS

The Ministry of Business, Innovation, and Employment (MBIE) and Ministry for the Environment have developed a dashboard of market indicators to provide a range of information to support analysis and understanding of local housing markets and implementation of the NPS – UDC. Market Indicators were last updated at the end of February 2018. Most data sets only have new information available to the end of December 2017, which is the basis for reporting below unless stated otherwise.

The rate of growth of housing sales has slowed in Kāpiti, following the national trend. However, demand still appears strong for housing in the district, as while fewer houses are being sold (275 in the last quarter); the average value of houses sold has continued to increase to a high of $503,675.

Further analysis of sales data will help to better understand any potential patterns or trends around the type, value, and location of homes being sold across the district.

New housing and sales

Trends and movements to the end of 2017 include:

- New dwelling consents compared to household growth shows that consents increased from 266 in October 2017 to 291 at the end of December 2017. Recent history has seen consent activity generally keeping ahead of household growth. However, there are two recent periods where housing growth has risen sharply, exceeding new dwelling consents; the latest from mid-2015 to mid-2016. In both cases there was a response where consent activity increased to match household growth levels a year later.
- The total dwelling stock in Kāpiti increased by 16 new dwellings in the last quarter, moving the total number of dwellings in Kāpiti to 21,910. The total dwelling stock increased by 149 across 2016, down from 260 in 2015.
- House sales have continued to slow from the last peak of 422 at the end of December 2016 down to 275 for the period ending December 2017. Accordingly, the percentage of dwelling sales as a percentage of total stock has also decreased from a recent peak of 1.7% at the end of 2015 to 1.255% in the last three months of 2017.
- Despite a decrease in sales, the average value of houses sold has continued to increase, up to a high of $503,675. During this period, the average land value of dwellings has also increased to $265,124 following a plateau around $190,000 between 2008 and 2014.

- The value of land as a percentage of capital value has also slightly increased but remains consistent around 47% (as of 30 September 2017) up from the last plateau of 35% between 1994 and 2002.

Rentals

Average rents for the last three months remain consistently around the mid-$300 per week mark after peaking near $400 mid 2017. The current average is below the regional and national average which is creeping above $400 with Wellington's someway ahead around the mid $400 per week mark.

The ratio of dwelling sales price to rental prices has increased sharply over the last four year period, where sale prices have increased sharply compared to market rentals. This increase suggests that it could become difficult for Kāpiti residents who are saving to buy into the housing market because higher house prices generally require a larger deposit.

Housing Affordability Measures (HAM)

HAM buy and HAM rent are measures developed by MBIE to help identify the overall affordability of buying or renting based on the 2013 National Affordability benchmark. Although affordability is still quite high in Kāpiti, recent data has shown a slight improvement in both HAM Buy and HAM Rent. There has been no update to either indicator in the last dashboard update.

PRICE EFFICIENCY INDICATORS

The three price efficiency indicators, housing price to cost ratio; rural/urban differential; and industrial zone differential, provide information relating to the demand and supply for developable land. This includes measures relating to the amount, costs, and responsiveness of development capacity to meet market needs.

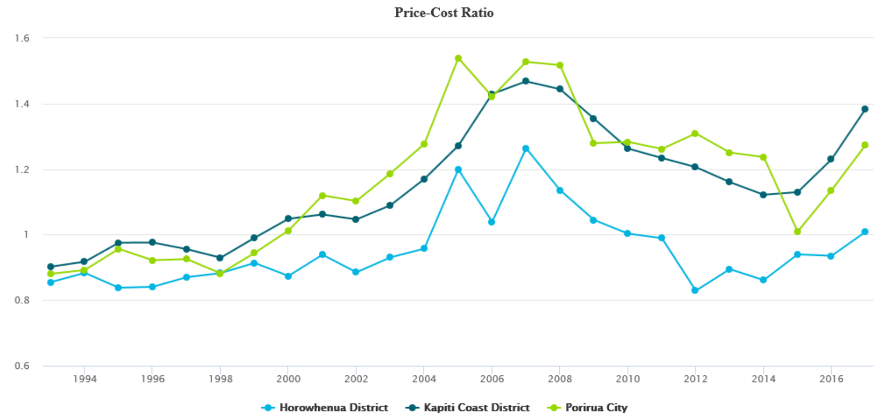
The rural/urban and industrial zone differential indicators currently cover all five medium growth council areas in the Wellington region. MBIE is undertaking further work to identify whether these indicators can be modeled across individual council areas. This finer level detail will be interesting to help identify any points of difference between Kāpiti and the other Wellington councils, especially with regards to its differing topography and rural surrounds.

Housing price to cost ratio

The price-cost indicator identifies the cost of land against the construction costs to build a dwelling. Typically, the cost of land should be around a third of the cost of a house with construction cost being the other two thirds. When there is a shortage of serviced sections, land prices can push up the cost of housing. So, the gap between the house price and construction costs – the price-cost ratio – can be used as a general indicator of the flexibility of land markets to accommodate new homes.

Ratios between 1 and 1.5 (that is, where the cost of an infrastructure serviced section comprises up to one-third of the price of a home) are common where the supply of land and development opportunities are relatively responsive to demand. All New Zealand urban areas had price-cost ratios of between 1 and 1.5 about 20 years ago when land and housing markets delivered more affordable housing, and these ratios are still common in places where homes are cheaper. Ratios above 1.5 suggest that the supply of sections and development opportunities is not keeping pace with demand and land prices are materially increasing house prices.

Kāpiti's price cost ratio has fluctuated between 1 and 1.5 since 1999. This included a gradual increase to a peak of 1.468 in 2007 followed by gradual decline with the more recent sharp increase from 1.130 to 1.384 between 2015 and 2017. This reflects an increase in national demand. Similar patterns of growth and response can also be seen in the neighboring districts of Porirua and Horowhenua.



Tracking the progress of this increase, alongside other indicators and the overall sufficiency of capacity available to meet demand, forms part of the development capacity assessment.

Rural/urban differentials for residential land

The rural/urban differential indicator identifies the cost difference between comparable parcels of land that sit on either side of an urban boundary. The indicator accounts for all tangible differences and costs leaving the remaining value difference largely attributable to underlying regulatory land use settings (plan zoning). This indicator is targeted at whether sufficient capacity is provided, because if sufficient zoned and serviced land is available for development, then the cost or urban peripheral land should be closer to rural prices.

Figure 1 shows the amount of rural land in proximity to urban area across Wellington. Figure 2 shows the cost of that land, which is worth much less than its neighboring urban areas.

Figure 1

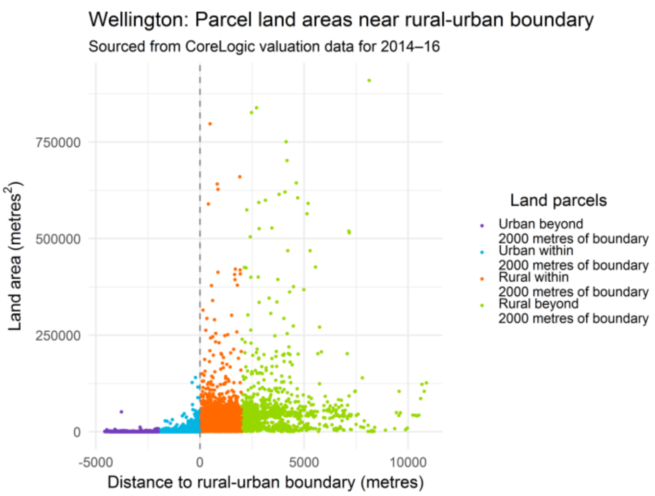
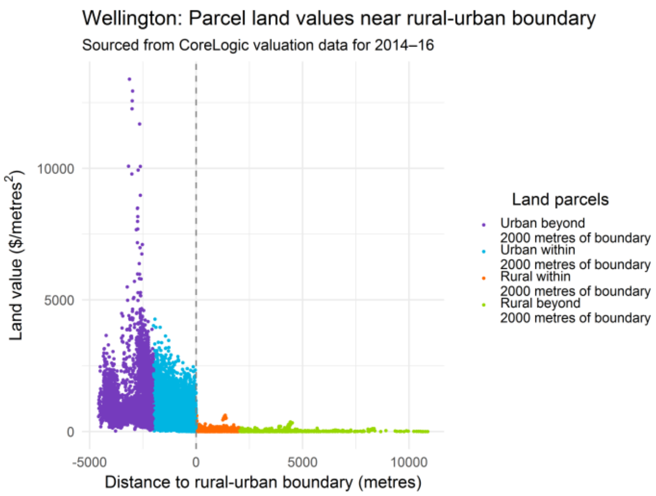


Figure 2



The table below shows the ratios for rural/urban differential in Wellington is 2.30, with a difference cost difference of $201m^2 and $120,371 per section (using a 600m section as a comparator across areas). This is well below Auckland's ratio and costs and, the costs for Hamilton and Tauranga (which are also high growth areas), but above Christchurch's ratio and cost differentials which have been focused heavily on the rebuild.

Urban area	Ratio	Difference ($/m2)	Difference ($/600m section)[1]
Auckland	3.15	$345	$206,722
Christchurch	2.23	$150	$90,136
Hamilton	2.42	$227	$136,213
Tauranga	2.02	$232	$139,135
Wellington	2.30	$201	$120,371

Further analysis will be undertaken to help understand if there are any differences between the analyses for the wider Wellington area as opposed to that for just Kāpiti.

Industrial zone differentials

This measure indicates how provision for industrial land matches relative demand to other competing land uses in a location. This includes whether industrial land is worth more (positive) or less (negative) than neighboring commercial, residential, and rural and if the differences are of statistical significance.

Analysis for industrial zone differentials for Wellington shows that:

- Industrial land is worth less than adjacent residential land in 44 percent of cases in Wellington compared to 59 percent of cases in Auckland, but only 35 percent of cases in Christchurch.
- Industrial land is worth more than adjacent rural land in 47 percent of cases in Wellington compared to 25 percent of cases in Hamilton, 50 percent of cases in Tauranga, and two out of three cases in Queenstown
- There are no cases in Wellington where industrial land is valued more highly than adjacent commercial land.

In general, there is a tendency for industrial land to have a lower value than commercial or residential land, and a higher value than rural land, rather than vice versa.

The indicator also provides more detailed data on specific industrial sites within Kāpiti. Further analysis will be undertaken around the local characteristics, history, and level of demand for land in these areas as part of the assessment of development capacity.

Urban area	Differential type	Number of zone boundaries	Statistically significant positive differential		Statistically significant negative differential	
			Number	Share	Number	Share
Auckland	commercial	53	0	0%	23	43%
Auckland	residential	66	5	8%	39	59%
Auckland	rural	12	7	58%	1	8%
Christchurch	commercial	18	0	0%	8	44%
Christchurch	residential	37	7	19%	13	35%
Christchurch	rural	17	6	35%	0	0%
Wellington	commercial	25	0	0%	11	44%
Wellington	residential	55	10	18%	24	44%
Wellington	rural	15	7	47%	1	7%
Tauranga	commercial	12	1	8%	6	50%
Tauranga	residential	13	0	0%	7	54%
Tauranga	rural	10	5	50%	1	10%
Hamilton	commercial	5	0	0%	2	40%
Hamilton	residential	10	0	0%	8	80%
Hamilton	rural	12	3	25%	1	8%

Appendix One: Building and resource consents

Table 1: Building consents issued by type, Kāpiti Coast District, first, second and third quarter comparison

Application type	1 June 2017 – 31 August 2017		1 September 2017 – 30 November 2017		1 December – 28 February 2018	
	Number	Value $	Number	Value ($)	Number	Value ($)
New (& prebuilt) house, unit, bach, crib	88	32,501,000	49	20,611,600	59	27,788,000
New flats	2	750,000	2	665,000	1	150,000
New flats added to existing building	0	0	0	0	0	0
New education building - other	2	7,200,000	2	7,405,000	0	0
New social buildings – other e.g. theatre	0		1	900,000	0	0
New offices	1	90,000	0	0	0	0
New Shops	0	0	0	0	1	50,000
New Restaurants	0	0	0	0	1	285,000
New Industrial Bldgs, eg foundry	0	0	0	0	3	1,317,000
New service stations	0	0	0	0	0	0
New farm buildings - other	5	151,000	3	119,000	7	198,000
New other buildings	0	0	2	110,500	0	0
New office / retail buildings	0	0	0	0	0	0
New office / warehouse buildings	0	0	3	1,292,000	0	0
New retail / warehouse	0		0	0	0	0
Dwellings - alterations & additions	78	5,757,250	55	4,211,500	52	4,457,500
Dwellings with flats - alterations & additions	1	18,000	2	19,000	2	140,000
Re-sited houses	1	30,000	1	70,000	1	250,000
Hotels – alterations and additions	0	0	1	4,000	0	0
Education buildings - alterations & additions	1	1,350,000	1	80,000	2	262,000
Social buildings - alterations & additions	0	0	0	0	0	0
Shops, restaurants - alterations & additions	6	481,500	5	1,086,000	2	170,000
Alterations & additions - office/admin	1	400	4	210,000	1	1,900,000
Factories – alterations and additions	0	0	0	0	0	0
Farm buildings alterations and additions	2	50,000	1	10,000	1	54,000
Other buildings - alterations & additions	6	405,000	4	420,000	5	380,000
Total	**194**	**48,784,150**	**136**	**37,213,600**	**138**	**37,401,500**

Note: applications for garages, fireplaces, fences, retaining walls, outbuildings, conservatories, swimming and spa pools, and other construction (e.g. signs and pergolas) have been deliberately excluded.
Source: Kāpiti Coast District Council building consent data.

Table 2: Resource consents granted by location, Kāpiti Coast District, first, second, and third quarter comparison

Location	1 June 2017 – 31 August 2017	1 September 2017 – 30 November 2017	1 December 2017 – 28 February 2018
	Number	Number	Number
Maungakotukutuku	2	2	3
Ōtaki	2	4	5
Ōtaki Forks	1	1	0
Paekākāriki	0	1	0
Paraparaumu (Central, North Beach, and South Beach & Otaihanga)	10	3	8
Peka Peka (Te Horo and Kaitawa)	1	2	4
Raumati Beach and Raumati South	9	3	8
Waikanae	23	11	12
Other	1	0	0
Residential (total)	**49**	**27**	**40**
Maungakotukutuku			1
Ōtaki	2	3	3
Ōtaki Forks	1	0	
Paekākāriki	0	1	1
Paraparaumu (Central, North Beach, and South Beach)	5	7	6
Peka Peka	1	0	
Raumati	0	1	1
Te Horo	0	1	
Waikanae	0	1	2
Non-residential (total)	**9**	**14**	**14**

Source: Kāpiti Coast District Council resource consent data.