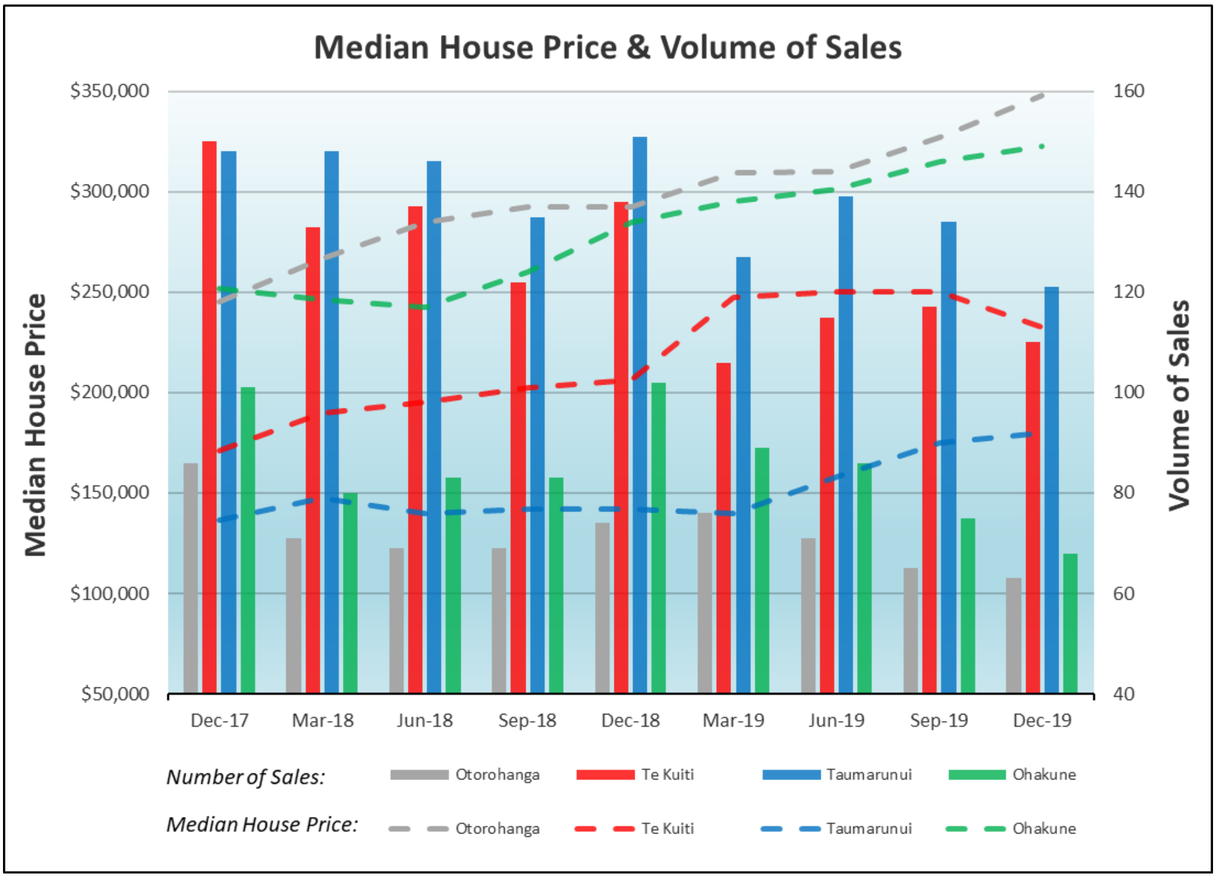
General Economic Commentary, King Country, Year to December 2019

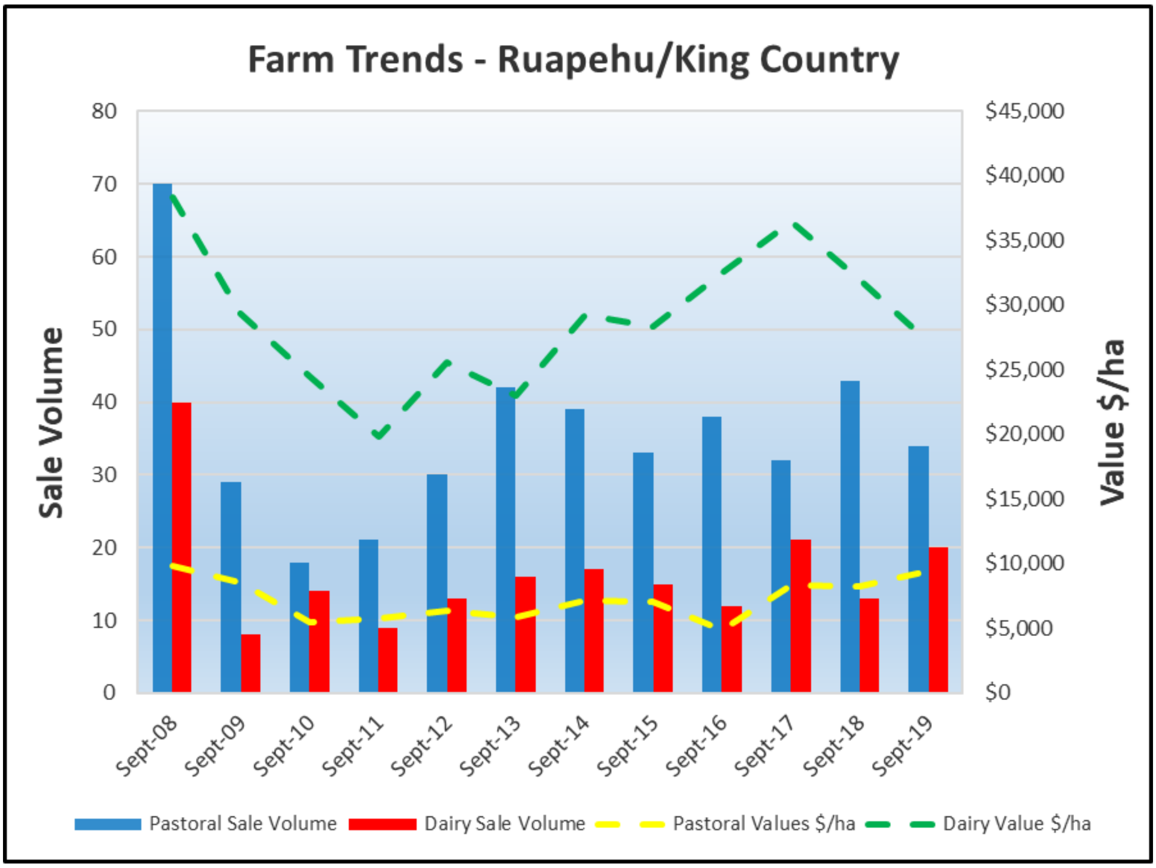
Overall the residential property market within the greater Ruapehu and King Country regions continues to follow an upward path that has been noticeable for some time now. Continuing trends include a relative lack of listings with well-presented properties experiencing strong demand, resulting in prices often being above asking and/or subject to multiple offers. Further points of interest include increasing demand for 'doer-uppers' or where purchasers can add value i.e. infill housing. Out of town interest continues to keep local purchasers on their toes, while there is relatively strong demand for vacant sections despite building costs often outweighing end value. Interestingly, over the past 24 months the median house price has increased in all four centres, with Otorohanga increasing 41.8%, Te Kuiti 36.0%, Taumarunui 31.7% and Ohakune 28.0%.

The Otorohanga residential median continued its upward trajectory, increasing to $348,000, with sale prices, on average, 44% above rateable value (RV). However, with new RV's having been recently released on their three year cycle, it will be interesting to see the correlation between prices and RV's going forward. The median sale price in Taumarunui increased marginally from $175,000 to $180,000. Ohakune also experienced an increase in median sale price, again only marginally, to $322,500 (from $315,000). Properties in Taumarunui and Ohakune, on average, are selling 50% and 44% above rateable values, respectively. Rateable values in both Taumarunui and Ohakune are due to be released in July next year. Of the four centres monitored, Te Kuiti was the only centre to decrease in median sale price since the previous quarter. The median sale price decreased from $250,000 to $232,500 though on average, houses are still selling 36% above rateable values which were only released last year. Sale numbers over the past 12 months decreased across each of the four centres when compared to the previous quarter. There were 121 sales in Taumarunui (down 10%), 110 sales in Te Kuiti (down 6%), 63 sales in Otorohanga (down 3%), and 68 sales in Ohakune (down 9%). We note that these sale numbers exclude vacant sections. There were an additional 22 sales of vacant residential sections over the past 12 months in Ohakune township.



Like the residential market, the lifestyle market has experienced a decrease in sale numbers when compared to the previous quarter. The median price in Otorohanga declined by 2% from $645,000 to $632,500 with an average land size of 2.02 hectares. Sale numbers decreased to 32 sales, down 16% on the previous quarter. In Waitomo, the median price increased 6% to $455,000 with an average land size of 2.34 hectares. Sale numbers decreased to 25 sales, down 26% on the previous quarter. Taumarunui experienced the largest increase in median price from $330,000 to $450,000 (up 36%) with an average land size of 2.75 hectares. Again, sale numbers decreased, though only marginally, to 20 sales compared to 21 sales in the previous quarter. Whilst there was no immediate correlation between median prices, on average, sale prices were above rateable values across each of Otorohanga, Waitomo and Taumarunui at 29%, 30% and 21% above rateable values, respectively. Aside from fewer sales, it is difficult to pinpoint a reason for the drop as anecdotally, demand for lifestyle properties appears strong.

In the rural market, sale numbers decreased by 3 to 31 pastoral farms over 100 ha selling in the last 12 months, with an average size of 385 ha. The median farm price decreased from $3,890,000 in the last quarter to $3,000,000. Dividing the total of all sale prices by the total number of hectares, equates to $8,620/ha which is a decrease of $812/ha on the previous quarter. A total of 19 dairy sales over 40 ha were recorded, the majority having occurred in the Otorohanga district. The average size was 134 ha, comparatively higher than previous quarters, resulting in a decrease in the average sale price per hectare from $27,167 to $24,479. The average price per hectare has not reached the peaks seen during the 2007/08 period with value levels being approximately 36% down on this time.



Overall, demand for sheep and beef properties remains strong though with more or an emphasis on the productive capacity of farms rather than relying on capital growth. This being underpinned by the ongoing strong commodity prices for lamb, beef and venison. However countered against this is the cost to 'stock' a farm with the higher stock prices. The sheep and beef sector is also being affected by the Governments 'one billion trees' policy, whereby sheep and beef purchasers are being chased along, and in some cases outbid, by forestry operators for both carbon farming and forestry/logging blocks, particularly in more remote locations. In contrast, the market for dairy farms continues to be weak and in some cases almost non-existent, particularly for larger properties and those within slightly lesser locations where in some cases marginal dairy units are being converted to sheep and beef finishing units. This being due to a number of contributing factors including the major lending institutions tightening lending criteria, continued uncertainty around Fonterra, the changes implemented in relation to the OIO rules, and continued environmental/compliance issues.

While there have been limited sales of commercial properties, major asset sales have been limited over the last 12-24 months largely due to a shortage of stock being presented to the market and limited number or larger scale properties in general. Local investors remain active but typically up to the $2.0M price level. Higher value properties appeal to small local syndicates and investors outside of the region and in most cases properties are compared against similar value assets in other regions as this sector of buyers are less concerned about the location, but more focused on the investment fundamentals of building quality, lease covenant, and scope for value growth.

Well leased properties continue to be sought after, meaning downward pressure on yields resulting in increasing values. In general, yields in Otorohanga are stronger than its Taumarunui and Te Kuiti counterparts, reflecting stronger demand for retail and commercial space. This is supported by the current commercial vacancy rate in Maniapoto Street, Otorohanga, at just 10.5% over 76 tenancies. In Rora Street Te Kuiti and Hakiaha Street Taumarunui, the vacancy rate remained unchanged at 13.2% and 15.6%, respectively.

Again, while market fundamentals continue to be strong i.e. interest rates are low, migration continues from the larger centres and supply is outweighed by demand, prices are more likely to remain under upward pressure. Other more localised factors having an influence include projects such as the expansion of Waikeria Prison, construction of the Happy Valley Milk factory and development of the Westridge II subdivision, all within Otorohanga, construction of a pet food factory in Taumarunui, and increasing tourism numbers for both Ohakune and Taumarunui.

The national median house price by comparison is $607,500. The official cash rate remained steady at 1.00%. The official unemployment rate is 4.2%.