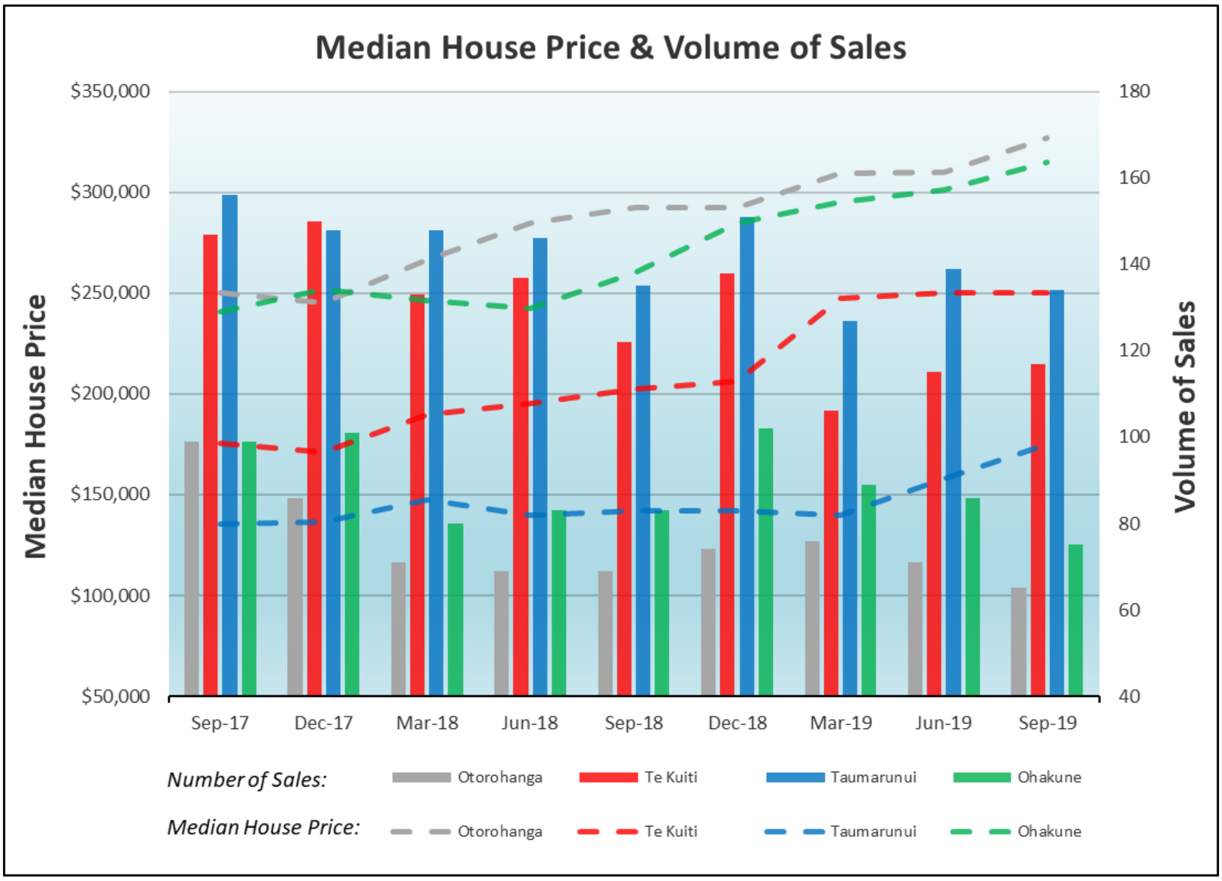
General Economic Commentary, King Country, Year to September 2019

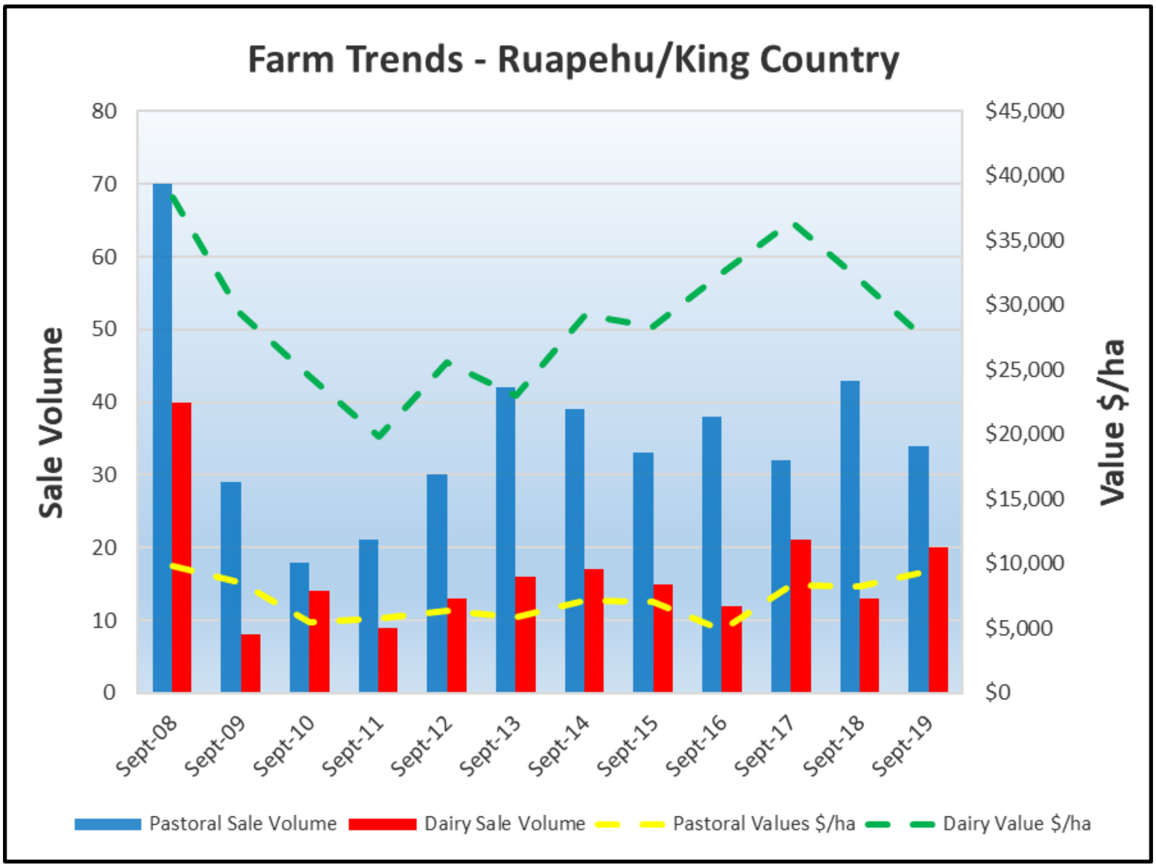
Overall the residential property market within the greater Ruapehu and King Country regions continues to follow an upward path that has been noticeable for some time now. Continuing trends include a relative lack of listings with well-presented properties experiencing strong demand, resulting in prices 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 some 30.7%, Te Kuiti 42.5%, Taumarunui 29.4% and Ohakune 30.8%.

Of the four centres monitored, Taumarunui experienced the largest increase in median sale price for the second consecutive quarter. The median sale price increased from $158,000 to $175,000 and on average, 41% above rateable values. Otorohanga continued its upward trajectory, with the median sale price increasing to $327,000. Sale prices were significantly above RV's, reflecting an average of 52%, though these rateable values are approaching the end of their three year cycle, with new values to be released later this year. Similarly, Ohakune experienced an increase in median house price from $301,000 to $315,000. Properties in Ohakune, on average, are selling 38% above rateable values. The median house price in Te Kuiti remained unchanged at $250,000 and on average, sold 12% above rateable values. Rateable values in Te Kuiti were released more recently in September 2018. Sale numbers over the past 12 months decreased across three of the four centres when compared to the previous quarter, however this is typical over the winter months. There were 134 sales in Taumarunui (down 4%), 65 sales in Otorohanga (down 8%) and 75 sales in Ohakune (down 13%). Te Kuiti was the only centre to experience an increase in sale numbers, though marginal, with 117 sales (up 2%). We note that these sale numbers exclude vacant sections. There were an additional 23 sales of vacant residential sections over the past 12 months in Ohakune township.



Unlike the residential market, the lifestyle market has been somewhat stagnant across each of Taumarunui, Otorohanga and Waitomo, when compared to the previous quarter. Otorohanga experienced the largest increase in median price from $618,750 to $645,000 (up 4%) with an average land size of 2.04 ha. Sale numbers decreased in Otorohanga to 38 sales, down 21% on the previous quarter. In Waitomo, the median sale price increased only marginally by 1% to $427,500. Sale numbers decreased to 34 (down 3%) with the average size decreasing to 1.64 ha. The median price for Taumarunui lifestyle properties decreased to $330,000 with an average land size of 3.43 hectares, though sale numbers remained at 21 sales. Whilst median prices remained relatively stationary across Otorohanga, Waitomo and Taumarunui, on average, sale prices were 39%, 19% and 12% 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 9 to 34 pastoral farms over 100 ha selling in the last 12 months, with an average size of 378 ha. The median farm price increased from $3,000,000 in the last quarter to $3,890,000. Dividing the total of all sale prices by the total number of hectares, equates to $9,432/ha which is an increase of $181/ha on the previous quarter. A total of 20 dairy sales over 40 ha were recorded, the majority having occurred in the Otorohanga district. The average size was 123 ha, comparatively higher than previous quarters, resulting in a decrease in the average sale price per hectare from $36,332 to $27,167. The average price per hectare has not reached the peaks seen during the 2007/08 period with value levels being approximately 29% down on this time.



Overall, the market for dairy farms continues to be relatively weak, particularly for larger properties and those within slightly lesser locations and/or those with any environmental concerns or less desirable factors. This being due to a number of contributing factors including the current uncertainty around Fonterra, the changes implemented in relation to the OIO rules, increasing enviromental/compliance issues and uncertainty around the rules, along with the sourcing of bank finance tougher to come by. As for the sheep and beef sector, demand remains stronger, particularly for good, well-presented properties, 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 outbidded, by forestry operators for both carbon farming and forestry/logging blocks.

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 9.2% over 76 tenancies. In Rora Street Te Kuiti, the vacancy rate decreased to 13.2% and in Hakiaha Street Taumarunui, the vacancy rate decreased to 15.6%.

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, and increasing tourism numbers for both Ohakune and Taumarunui.

The national median house price by comparison is $575,000. The official cash rate reduced 50 basis points to 1.00%. The official unemployment rate is 3.9%.