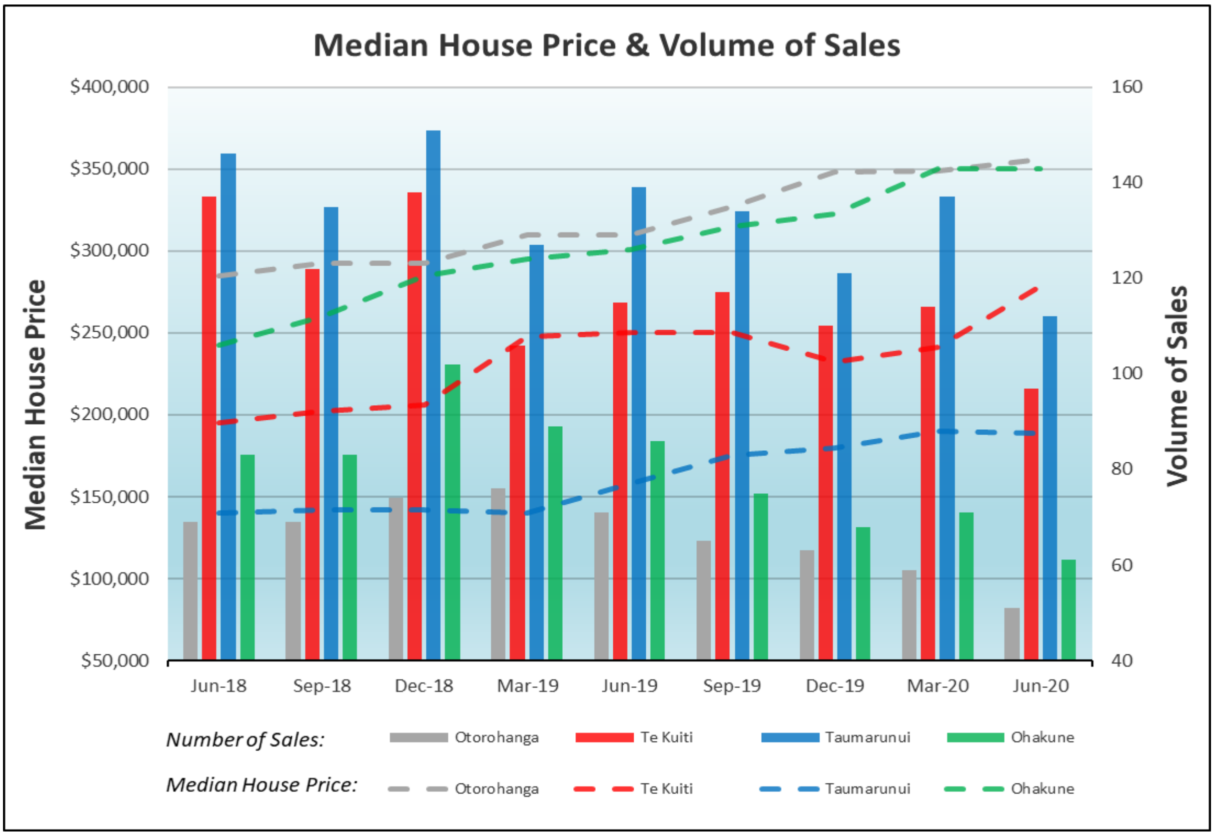
General Economic Commentary, King Country, Year to June 2020

The current Coronavirus (Covid-19) global outbreak is creating significant economic and financial global ‘headwinds’. As New Zealand is an ‘exporting’ nation, the impact on forestry and the meat industry has been evident, and Tourist numbers have decreased significantly. A drop in New Zealand’s Gross Domestic Product (GDP) is widely expected by economists, with a “recession” now expected in the short to medium term.

The OCR drop to 0.25% is the most severe since the GFC and together with the forced cancellation of sporting, business, cultural and musical events, consumer confidence and spending habits will be impacted. The national decline in consumer confidence and spending will likely have some impact on the property market. The overall impact is yet undetermined, and this comment is tempered by the full and dynamic impact of Covid-19 on consumer confidence not yet realised, though early indications are that demand for residential and lifestyle property, in particular, has remained strong.

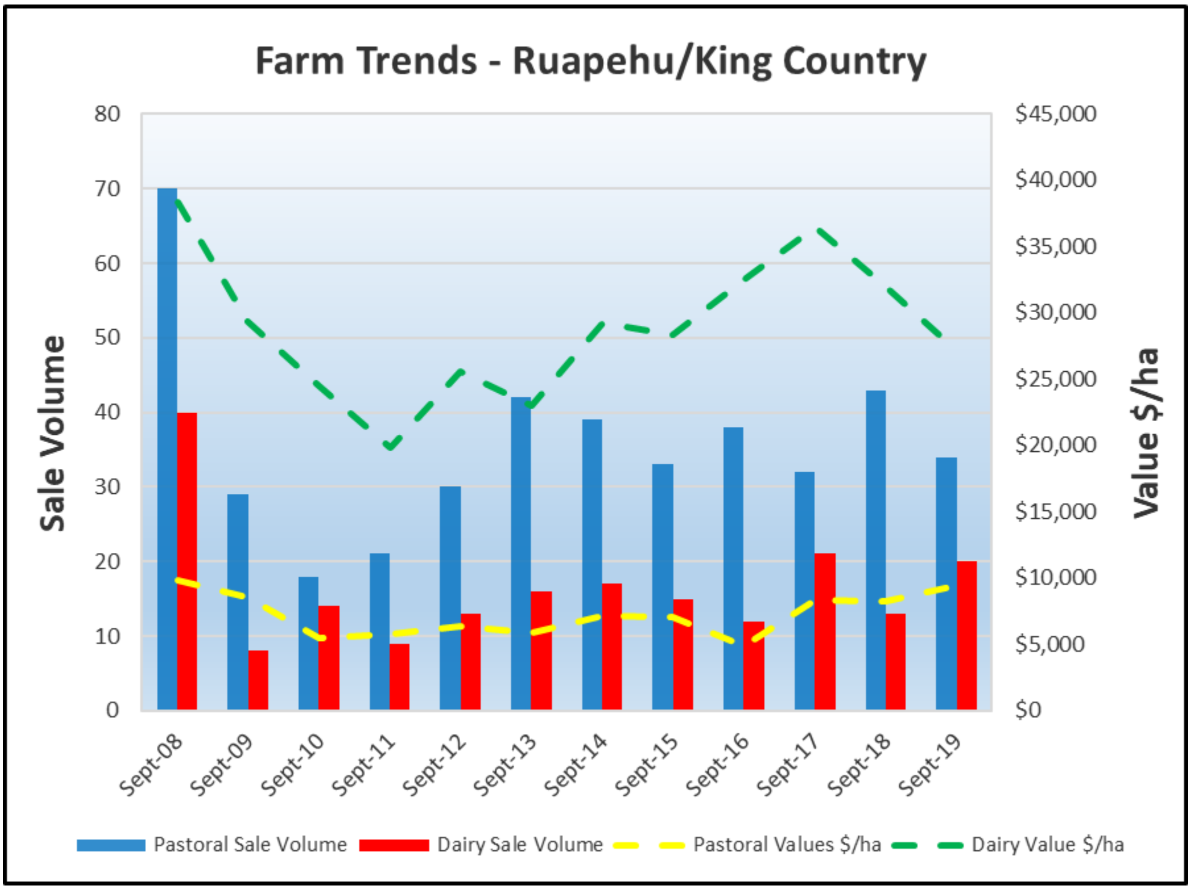
The residential property market within the greater Ruapehu and King Country regions as at June 2020 continues to follow an upward path that has been noticeable for some time now. Continuing trends include a relative lack of listings with well-presented properties experiencing strong demand, resulting 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 one again increased in all four centres, with Otorohanga increasing 24.9%, Te Kuiti 42.7%, Taumarunui 34.8% and Ohakune 44.3%.

Whilst sale volumes were down across the four main centres, prices generally remained steady or experienced an increase when compared to the previous quarter. The Otorohanga residential median continued its upward trajectory, marginally increasing to $356,000 (from $349,000). Whilst new rateable values (RV’s) were only recently released in Otorohanga, sale prices, on average, are 19% above RV’s. Te Kuiti experienced the largest increase in median sale price to $278,350 (up 15.4% on the previous quarter). Like Otorohanga, sales prices in Te Kuiti are, on average, 19% above RV’s. The median sale price in Taumarunui marginally decreased from $190,000 to $188,750, while Ohakune remained steady at $350,000. Properties in Taumarunui and Ohakune, on average, are selling 57% and 52% above rateable values, respectively. Rateable values in both Taumarunui and Ohakune are due to be released later this year. As detailed above, sale volumes were down, largely due to Covid-19. In the year to June 2020, there were 51 sales in Otorohanga (down 14%), 97 sales in Te Kuiti (down 15%), 112 sales in Taumarunui (down 18%), and 61 sales in Ohakune (down 14%). We note that these sale numbers exclude vacant sections. There were an additional 19 sales of vacant residential sections over the past 12 months in Ohakune township.



Unlike the generally upward trajectory in the residential market, there was no common trend in the lifestyle market across each of Otorohanga, Waitomo and Taumarunui. The median sale price in Otorohanga marginally increased by 1% to $630,000 when compared to the previous quarter, with an average land area of 2.04 hectares. Sale volumes remained unchanged at 33 sales for the quarter. Waitomo lifestyle sales were up 4% to 24 sales, though the median sale price decreased by 21% to $425,000, with an average land area of 2.27 hectares. Conversely, the median sale price for lifestyle properties in Taumarunui increased by 26% to $525,000, with an average land area of 4.61 hectares, up from 3.80 hectares in the previous quarter. Sale volumes decreased from 17 to 13 sales (down 24%). 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 10%, 23% and 39% 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 21 to 16 pastoral farms over 100 ha selling in the last 12 months, with an average size of 268 ha. The median farm price decreased from $2,580,000 in the last quarter to $2,175,000. Dividing the total of all sale prices by the total number of hectares, equates to $8,358/ha which is a decrease of just $205/ha on the previous quarter. A total of 9 dairy sales over 40 ha were recorded, the majority again having occurred in the Otorohanga district. The average size was 106 ha, compared to 133 ha in the previous quarter, though the average sale price per hectare increased from $23,466 to $25,677. The average price per hectare has not reached the peaks seen during the 2007/08 period with value levels being approximately 33% down on this time.



Overall, demand for sheep and beef properties remains strong with those that are being offered to the market often receiveing multiple tenders. It is obvious that there is more of an emphasis on the productive capacity of farms rather than relying on capital growth. 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, though some fully developed farms are being purchased and planted out. In contrast, the market for dairy farms continues to be weak, despite a relatively strong milk price. This being due to a number of contributing factors including the major lending institutions tightening lending criteria, the changes implemented in relation to the OIO rules, and continued environmental/compliance issues.

In the commercial sector, major asset sales have been limited over the last 1-2 years 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 Hakiaha Street Taumarunui, the vacancy rate is 11.7% over 77 tenancies. In Rora Street Te Kuiti, the vacancy rate is 11.8% over 76 tenancies.

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 though Covid-19 appears likely to further impact the economy. It is too early to predict the impact Covid-19 will have on the property market with job security being one of the main influences on property demand/prices. 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 $680,000. The official cash rate dropped by 75 basis points to 0.25%. The official unemployment rate is 4.2%.