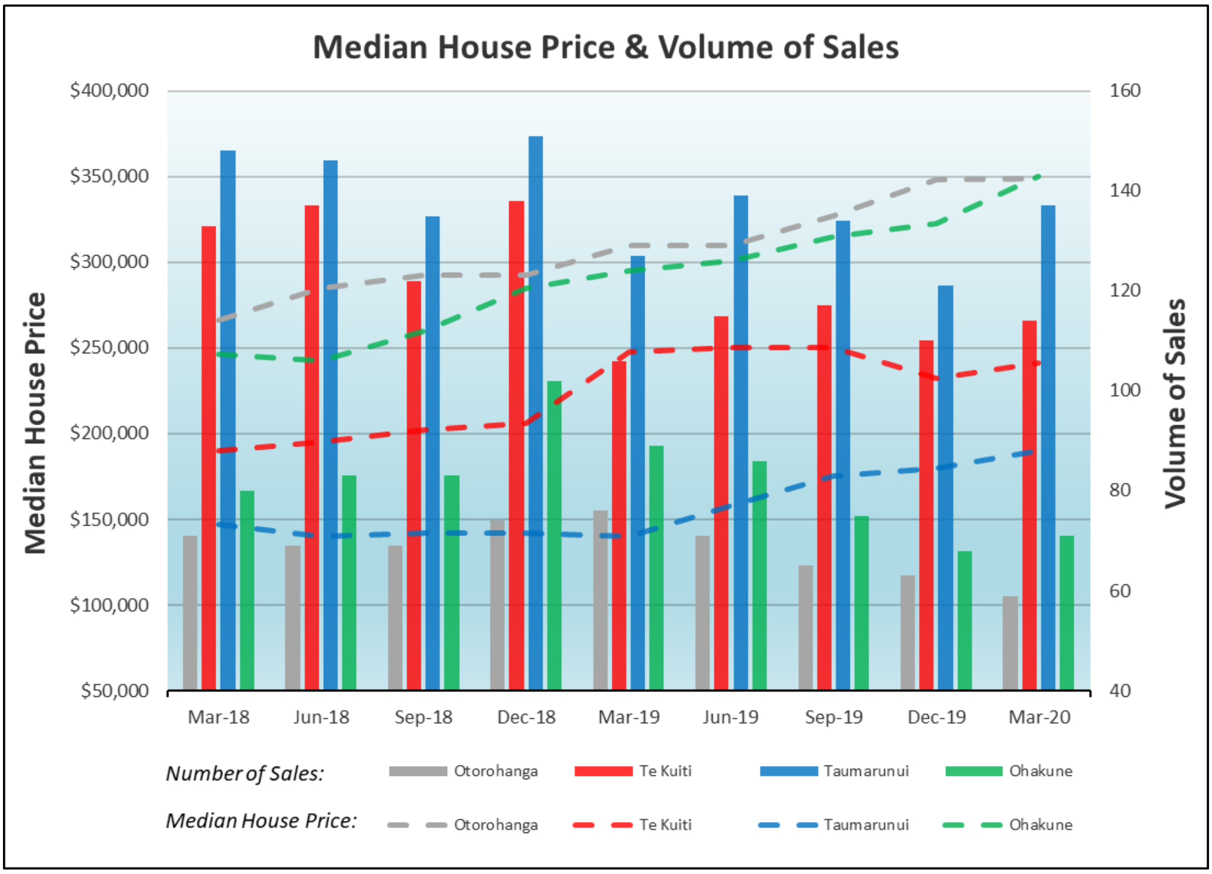
General Economic Commentary, King Country, Year to March 2020

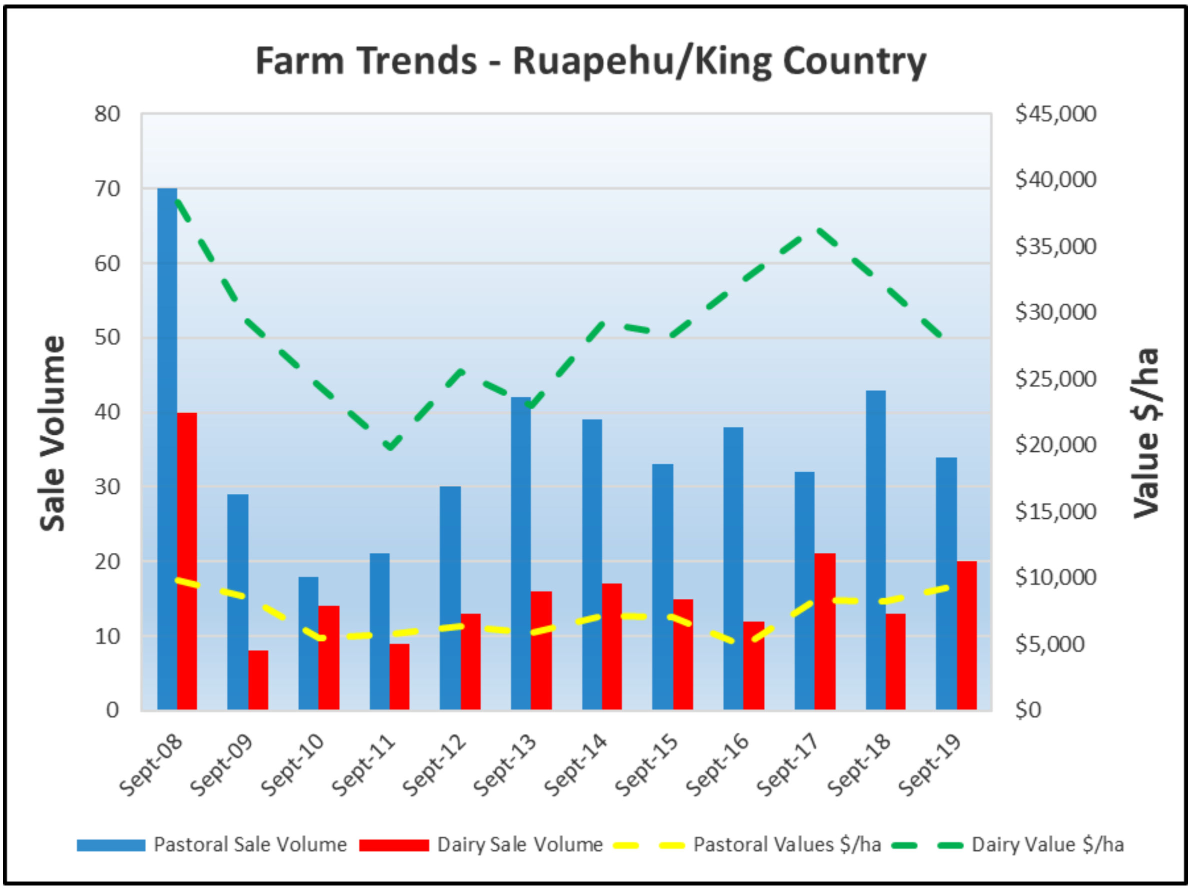
Overall the residential property market within the greater Ruapehu and King Country regions continues to follow an upward path that has been noticeable for some time now. Continuing trends include a relative lack of listings with well-presented properties experiencing strong demand, resulting in prices 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 one again increased in all four centres, with Otorohanga increasing 31.0%, Te Kuiti 26.9%, Taumarunui 29.0% and Ohakune 41.1%.

The Otorohanga residential median continued its upward trajectory, marginally increasing to $349,000. Whilst new rateable values (RV's) were only recently released in Otorohanga, sale prices, on average, are still considerably higher at 35% above RV's. Sales in Otorohanga over the quarter, on the other hand, were down 6% to 59 sales, though this is due to a lack of available listings rather than demand for same. The median sale price in Taumarunui increased from $180,000 to $190,000. Ohakune also experienced an increase in median sale price to $350,000 (from $322,500). Properties in Taumarunui and Ohakune, on average, are selling 55% and 50% above rateable values, respectively. Rateable values in both Taumarunui and Ohakune are due to be released later this year. The median sale price in Te Kuiti increased from $232,500 to $241,160 and on average, houses are selling 15% above rateable values. Unlike Otorohanga, sale numbers over the past 12 months increased across Taumarunui, Te Kuiti and Ohakune when compared to the previous quarter. There were 137 sales in Taumarunui (up 13%), 114 sales in Te Kuiti (up 4%), and 71 sales in Ohakune (up 4%). We note that these sale numbers exclude vacant sections. There were an additional 24 sales of vacant residential sections over the past 12 months in Ohakune township.



Unlike the upward trajectory in the residential market, there was no common trend in the lifestyle market across each of Otorohanga, Waitomo and Taumarunui. Whilst sale numbers marginally increased in Otorohanga by 3% to 33 sales, the median sale price fell 1% to $626,000 when compared to the previous quarter, with an average land area of 1.71 hectares. Conversely, the median sale price in Waitomo increased from $455,000 to $535,000 (up 18%) with an average land area of 2.76 hectares, though sale numbers decreased from 25 to 23 sales. The Taumarunui lifestyle market experienced a decline in both median sale price and sale numbers. The median sale price fell 7% to $418,000 (from $450,000) and sale numbers were down 15% to 17 sales. 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 20%, 36% and 26% 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 10 to 21 pastoral farms over 100 ha selling in the last 12 months, with an average size of 359 ha. The median farm price decreased from $3,000,000 in the last quarter to $2,580,000. Dividing the total of all sale prices by the total number of hectares, equates to $8,562/ha which is a decrease of $57/ha on the previous quarter. A total of 12 dairy sales over 40 ha were recorded, the majority having occurred in the Otorohanga district. The average size was 133 ha, similar to the previous quarter, though the average sale price per hectare decreased from $24,479 to $23,466. The average price per hectare has not reached the peaks seen during the 2007/08 period with value levels being approximately 39% 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. 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 different uses such as sheep milking or 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.

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 10.5% over 76 tenancies. In Hakiaha Street Taumarunui, the vacancy rate is 13.0% over 77 tenancies. In Rora Street Te Kuiti, the vacancy rate remained unchanged at 13.2%.

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 the recent development of the Corona Virus appears likely to impact on the economy, however it is too early to predict the impact, if any, this will have on the property market. 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 $615,000. The official cash rate remained steady at 1.00%. The official unemployment rate is 4.0%.