

# PROPERTY WATCH SUMMER 2011

MOORE & PERCY CENTRAL OTAGO & QUEENSTOWN LAKES DISTRICTS

## NATIONAL OVERVIEW

The Reserve Bank left the Official Cash Rate (OCR) unchanged at 3.0 percent in October.

Reserve Bank Governor Alan Bollard said: Despite some data turning out weaker than projected, the medium-term outlook for the New Zealand economy remains broadly in line with that assumed at the time of the September Monetary Policy Statement.

"The earthquake that struck Canterbury on 4 September has significantly disrupted economic activity and is likely to continue to do so for some time yet. Many homes and businesses have been damaged, as have significant parts of Canterbury's public infrastructure. Eventual reconstruction and repairs will require considerable resources over the next year or two, particularly in the construction sector.

"Downside risks to the outlook for global growth continue, with high public and private debt inhibiting recovery in many developed economies. Moreover, it is unclear how further policy support would impact on the outlook for growth in our Western trading partners. Offsetting this weakness, strong growth continues in China, Australia and emerging Asia.

"Domestically, recent data has turned out weaker than projected. Continued household caution has seen consumer spending and housing market activity remain muted, and many firms have become less optimistic about

their future prospects. However, continued high export prices, along with reconstruction and repairs in Canterbury, will support activity over the coming year.

Tourism remains positive with Statistics NZ reporting November 2010; visitor arrivals from Australia numbered 1,121,761, up 7% from September 2009 with visitor arrivals from Germany, China, Japan and Korea all up some 2.4% to 15.9%, but UK & USA arrivals down some 6.4% and 2.8%.

Net annual migration has stalled with the gain of only 100 to June 2010.

The outlook for farming is improving but remains mixed, with the industry still having to contend with ongoing high exchange rates. In May this year Fonterra's 2010/11 payout was forecast at \$6.90 to \$7.10/kg milk solids and in spite of the market easing, is likely to remain so for the season. The payout is an improvement over the 2009/10 now confirmed at \$6.10 kg milk solids but with 33 cents retained in reserve. Also meat revenues remain high and wool returns are improving at last.

Unemployment has decreased to 6.4% from 6.8% earlier in 2010; and the economy continues improving slowly, growth is being predicted for this year and next year and the outlooks for farming particularly dairying and exporting are improving. Large scale debt restructuring re-

mains an ongoing reality in the dairy industry and elsewhere, plus mortgagee and receiver-ship sales continue.

In spite of the improving outlook, new bank lending remains tightly controlled to all categories of borrowers. Business and household confidence remains low and real estate markets are struggling.

### MARKET INDICATORS – OCTOBER 2010

	Actual	Date	Inc/Dec
CPI	1.5%**	Sept 10	1.1% qtr
GDP	+0.6%	June 10	+0.4% qtr
Unemployment	6.4%	Sept 10	-0.4% qtr
PLT ^ Migration	+100	June 10	

### Median House Price – to Sept (QV)

	Median	+/- annual change to Oct
National	\$350,000	-1.4%
Queenstown Lakes	\$455,000	-3.2%

### Major Bank Interest Rates (guide only - Oct 10)

Variable	5.75%	to	6.30%
1yr Fixed	5.95%	to	6.49%
Official Cash Rate	3.00%	unchanged	28 Oct 10

\*Economic Growth

\*\*Inflation (annual increase in CPI)

^ PLT = Permanent and long-term migration

## CENTRAL OTAGO DISTRICT

We are now approaching our summer period following the growth and excitement of spring. The most encouraging part of the real estate market in Central Otago at the end of the winter has been the rise in median sale price, albeit on relatively low sales volume. The improved rural lifestyle market has shown a relatively steady median sale price on a small volume. However, the vacant lifestyle block market continues to show a decline in median sale price on a very low volume of sales, indicating limited demand for this type of property.

Alexandra has been leading the district in sales volume, sales of residential dwellings in Cromwell have continued at relatively low levels, but in both areas and there has been some slight increase in the median sale price. However section sales in Cromwell are ahead of those in Alexandra, as is the median sale price. Building activity has continued to slow down but some new homes continue to be built in and around our main centres.

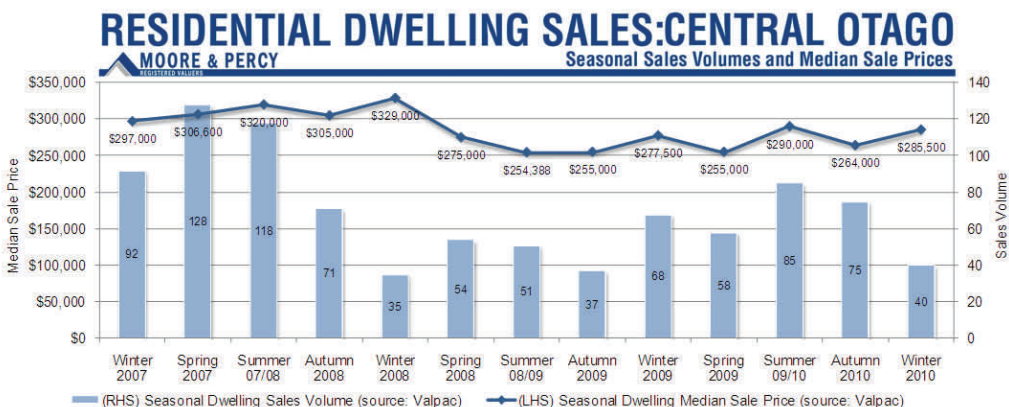
The greater rural market for farm properties continues to show an exceptionally low sales volume with no significant farm sales recently. While there have been very few orchard sales, the horticulture industry experienced a relatively good past season, particularly on the

export market, good crops are showing at present, cherries are being picked. There have been a limited number of sales of vineyard properties, but at least we now have some sales indicating some interest being rekindled in the viticulture market which continues undergoing a difficult period.

There has been some limited activity on the industrial and commercial market with only two significant sales in Alexandra and Cromwell indicating rates of return of between 7.5 and 8.7%. There is some new commercial building

activity taking place in Cromwell but industrial developments have slowed considerably as the demand for space has fallen off.

The graph below shows seasonal sales volumes and median sale prices of dwellings since winter 2007 in the Central Otago district illustrating the volume of sales and trend of the median sale price for the past three years, it is of interest that the median sale price increased during winter 2010.



# QUEENSTOWN LAKES DISTRICT

## Queenstown

There was encouraging activity in the Queenstown property market through the first half of 2010 although this appears to have evaporated during winter and the normally buoyant spring season has been unnaturally quiet with listings down. Property values continue to decline gradually as banks remain cautious and both vendors and purchasers adopt a wait and see attitude. We remain positive with some indication of a late November pickup and expectations of increased activity after the Christmas holiday period.

Residential house sales volume has dropped off through the second half of 2010 in most areas of Queenstown, possibly by as much as 50% on the first six months. The median sale price has continued its downward trend. The market has been active up to \$1.3m with the exception of the \$700,000 - \$900,000 range which has remained subdued. There have been a few sales around the \$1.9m - \$2.2m level, although beyond this the market has been very quiet with only a single standout sale of a superb lake front home at around \$4m. Vacant residential section sales numbers for 2010 look to be about half the number of 2009, although the median sale price has tracked fairly flat through this period showing prices have held their ground.

The Queenstown rural lifestyle market remains quiet through 2010. Most of the improved sales have ranged from \$800,000 to \$1,100,000 although a very small number of superior quality properties have sold around \$2m, \$3m and \$4m. Sales volume for improved rural properties is tracking at a similar level to 2009. The vacant rural lifestyle market has been a lot quieter than 2009 although there are still some sales occurring, tending to group in the \$400,000 to \$600,000 range and the \$900,000 to \$1,100,000 range. Buyers are out there at all levels of the market but vendors must realise they face a lot of competition. Only the really desirable top quality properties are holding their prices.

The Queenstown apartment market remains quiet with values declining through the year. A good portion of activity in the apartment market through the second half of 2010 has been in The Rees on Frankton Road where a developer's sell-down continues. Outside of The Rees sales have trickled through, buyers

showing little urgency which is to be expected when further receivership and stressed sales are likely. A receivership auction in the Bowen View and Pounamu Prime developments was pulled the night before with the hope of achieving better results offshore however this is yet to happen. The Kawarau Falls development is set to open in March 2011 which will further increase the existing oversupply of short term accommodation in the resort. The apartment market is oversupplied and values are likely to continue falling until a more even balance between vendors and purchasers is met.

## Wanaka

It is apparent the economic recession and problems in the dairy and grape growing industries are being felt throughout the Central Otago and Queenstown Lakes districts, with reduced demand for housing, lifestyle and farming properties.

The reported increase in residential property sales in Auckland has still not occurred here. The market remains quiet with activity mainly in the \$320,000 to \$650,000 range and only few sales above this level. Also the markets away from Wanaka at Albert Town, Hawea and Luggate are very slow.

The overall decline in property values continues but with the occasional sales above market level. Vacant section sales are slow, with developers offering delayed settlements, price discounts or cash rebates to encourage buyers. The top end residential market that had been active in 2009 has slowed to but with some recent sales activity in the \$1,300,000 plus range. The market having now eased,

historical value levels at the \$2,000,000 level are struggling to holdup. The exceptions being well designed well built homes with Lake Wanaka and alpine views that appeal to the buying public.

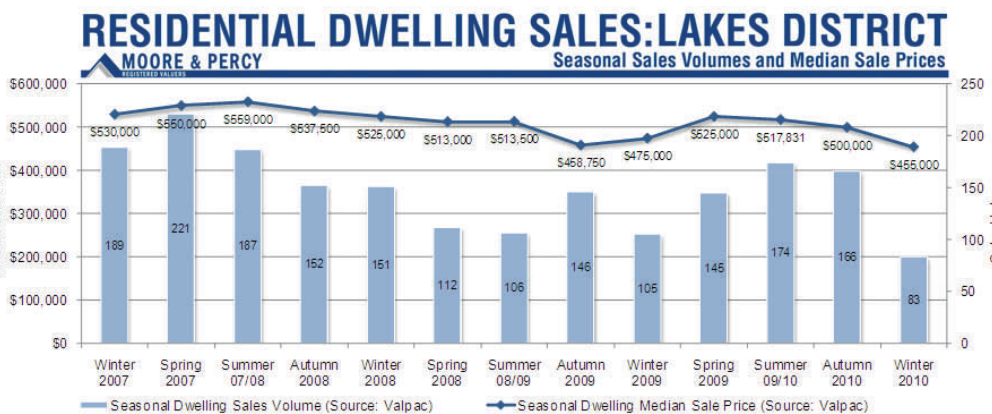
The greater rural market for farm properties continues to show exceptionally low sales volumes, with no significant farm sales recently. There have been a limited number of orchard and vineyard sales in the Clutha Valley, but with no real strength to the market.

The lifestyle market also remains quiet with only a few improved sales reported often below historical levels.

Like Queenstown the apartment market remains shaky; receivership sales in Wanaka and Queenstown not helping the situation. Very few sales are occurring and values have fallen with the market being dictated by ongoing mortgagee sales and or financially distressed vendors exiting. Overall demand for apartments appears limited to bargain hunters.

On a positive note life isn't all bad. We had a great winter with plenty of Australian visitors, the All Blacks, Kiwis and Silver Ferns were winners again and the predicted long, dry summer is already here. We have Christmas to look forward to and the economy along with property market will eventually recover.

The graph below shows seasonal sales volumes and median sale prices for dwellings in the Queenstown-Lakes District since winter 2007, showing sale price trending downwards since the peak of the market in 2008 with a dip during the recession of 2009 and a quiet market through winter 2010.



## SEASONS GREETINGS



The team at Moore & Percy wish you all a very Merry Christmas and a Happy New Year. Enjoy a well deserved break and we'll see you next year for what we hope will be an exciting year in the property industry around Queenstown Lakes and Central Otago Districts.

Please note our office will be closed from noon 24th December 2010 and will reopen on 5th January 2011.



**PROPERTY WATCH** is produced by Moore & Percy, Independent Property Professionals. We are based in Central Otago & Southern Lakes Districts, and have offices in Queenstown, Alexandra and Wanaka, also servicing surrounding areas including northern Southland and Westland. Moore & Percy have a team of registered valuers experienced in all types of residential, rural, commercial and industrial property valuation and can provide comprehensive reports to assist your property needs.

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