

PROPERTY WATCH WINTER 2011

MOORE & PERCY

CENTRAL OTAGO & QUEENSTOWN LAKES DISTRICTS

NATIONAL OVERVIEW

The Reserve Bank reduced the Official Cash Rate (OCR) 50 basis points to 2.5 percent in March 2011 and allowed it to remain the same as at 28 July with Governor Alan Bollard commenting:

"The economy has grown more strongly than was expected, and it appears that the recovery is getting back on track, supported by a strong terms of trade. At the same time, however, current fragility in global financial markets, including the uncertainty around the US Government's debt ceiling, continues to highlight the downside risk to trading partner activity noted in the June Statement.

"Annual headline CPI inflation continues to be above the Bank's 1 to 3 percent target band. However, much of the current spike in inflation has been driven by the October 2010 increase in the rate of GST, and will therefore be temporary. Wage and price setters should focus on underlying inflation, which is currently estimated to be below 2.5 percent.

"Provided current global financial risks recede and the economy continues to recover, the Bank sees little need for the March 2011 'insurance' cut to remain in place much longer. The current very high value of the New Zealand dollar is acting as a drag on the New Zealand economy. If this persists, it is likely to reduce the

need for further OCR increases in the short term."

Elsewhere tourism remains mixed with Tourism NZ reporting as at June 2011; visitor arrivals from Australia numbering 1,111,192 down 0.7%, arrivals from Germany, China, India, Singapore and Malaysia up 0.3 to 33.0%, with arrival from UK, Netherlands, USA, Canada, Japan, South Korea and Taiwan down some 0.4% to 11.6, but with the affects of flooding in Australia, earthquakes and tsunami in Japan still to be determined.

The Department of Labour reports a net annual migration has eased to 3800 as at to June 2011.

The outlook for farming continues improving but remains mixed the industry having to contend with ongoing high exchange rates. Fonterra's 2010/11 payout initially forecast at \$6.90 to \$7.10/kg milk solids, increased to \$8.00 to \$8.10/kg milk solids in May 2011. The 2011/12 forecast was set at \$7.15 to \$7.25/kg milk solids but may not be sustainable with the ongoing high exchange rates. Other farm revenues remain high with increasing lamb, beef and cross-bred wool prices.

Unemployment has eased to 6.7%, but overall the economy continues improving slowly, some growth is being predicted for this year and next

year and the outlooks for farming particularly dairying and exporting remain optimistic. Regardless large scale debt restructuring and reduction remains an ongoing reality in the farming industry. Elsewhere mortgagee and receivership sales continue.

MARKET INDICATORS – JULY 2011

	Actual	Date	Per Qtr
CPI	5.3%**	Jun 11	1.0%
GDP		Mar 11	1.8%
Unemployment	6.6%	Jun 11	-0.1%
PLT ^ Migration	-300	Jun 11	

Median House Price – to June (REINZ)

	Median	+/- annual change to Apr
National	\$360,000	+2.98%
Queenstown Lakes	\$430,000	+0.0%

Major Bank Interest Rates (guide only – June 2011)

Variable	5.65%	to	5.75%
1yr Fixed	6.45%	to	6.55%
Official Cash Rate	2.50%	Held	28 July 2011

*Economic Growth

**Inflation (annual increase in CPI)

^ PLT = Permanent and long-term migration

CENTRAL OTAGO DISTRICT

Winter is with us after we have experienced one of the wettest seasons on record. The snow eventually came to our ski fields and enabled this very important part of our tourism operation to kick into action. The disruptions that have taken place to our tourist traffic in and out of New Zealand have had a significant effect on many parts of our local economy. The primary sector has been boosted considerably by very favourable milk, meat and wool prices, however other parts of the economy have suffered and there have been a number of business closures taking place. It has however been encouraging to see that the level of residential dwelling sales has continued at relatively modest levels but with a relatively steady median sale price.

Sales of vacant residential sections continue at very low levels. There has been a small improvement in the sales volume for improved rural lifestyle blocks together with a modest rise in the median sale price. The sales volume for vacant rural blocks continues to be very low. Building activity has continued and new homes are being built in and around our main centres. It is of interest that there has been an increase in sales volumes in both Roxburgh and Ranfurly. The greater rural market for farm properties has shown a small increase in sales volume indicating that there is confidence in this market and sale prices have fully maintained the levels

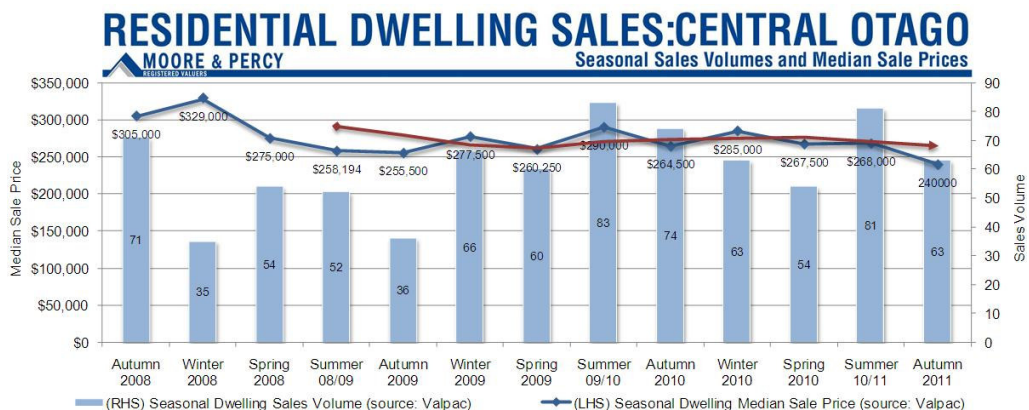
of 2010. We are unaware of any recent sales of orchard or vineyard properties, the latter with a number languishing on the market.

There has been practically no activity recently on the industrial and commercial property market. We note there remain a number of vacant commercial and industrial premises, both in Alexandra and in Cromwell.

On a cheerful note, Spring is not far away, the push to extend the cycle trails in Central Otago continues and the busy Central Otago Rail Trail

season we understand will commence earlier than ever in the coming season.

The following graph shows the seasonal median sale prices and sales volumes for residential dwellings in the Central Otago District since autumn 2008. The yearly moving average trend line in red shows the median sale price easing since the peak of the market in 2008 and remaining fairly flat for the past two years at around \$275,000. Sales volumes have ranged in a band of 54-83 per season over the past two years:



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. Should you wish to receive this publication by email please email propertywatch@moorepercy.co.nz

QUEENSTOWN LAKES DISTRICT

Queenstown Residential:

The number of residential properties selling in Queenstown increased slightly from 2009 to 2010. As expected winter was the quietest season for both years, with sales volume increasing noticeably through the warmer months. This is a trend that is expected to continue in 2011. Despite the ongoing seasonal variations in sales volume, the long term trend for the median sale price has remained largely static for the past two years, hovering just above the \$500,000 level. Overall the residential property market is considered to be in fairly good health, having produced expected and recurring trends in sales volume and a stable median price over the past two years.

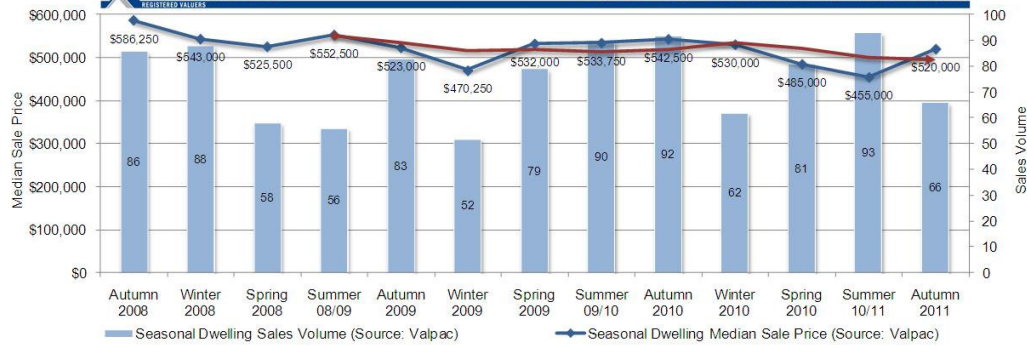
Through the first half of 2011 the residential dwelling market has been most active in the \$300,000 to \$599,000 range, showing more subdued activity between \$600,000 and \$799,000, with sparse activity from \$800,000 up to the highest residential house sale this year (as of mid 2011) at just under \$2 million. Vendors in the lower to middle portion of the market

(up to \$599,000) will continue to experience the most buyer interest and will most likely have better price stability. Vendors in the upper levels of the market, particularly above \$799,000 will likely find smaller numbers of buyers and are more likely to have to meet the market than vendors in the lower to mid range. Keep in mind that superior quality, location and views are always in demand and properties that fulfil all of

these requirements are still achieving premium prices.

The number of vacant residential section sales has been very consistent between 2009 and 2010 at around 60% of the level that consistently occurred before the market peaked in 2008. The median sale price for sections has continued to trend downwards since 2008.

RESIDENTIAL DWELLING SALES: QUEENSTOWN



Queenstown Rural Lifestyle:

The Queenstown rural lifestyle market remains quiet through 2011, consistent with activity over the past two years. Sales for improved lifestyle properties are scattered but generally range from \$1 million to \$2 million with a number of superior properties selling for up to \$6 million. There were a low number of vacant rural lifestyle sales in 2010 and this is expected to continue through 2011. Buyers remain scarce and the rural lifestyle market is still considered over supplied. Similar to the residential market, quality, location and views are always in demand and properties that fulfil all of these requirements achieve premium prices. Properties that lack some or all of these attributes will struggle to sell with some vendors either removing their property from the market or lowering their price expectations.

The graphs are based on settled sales data, the most recent period in any graph will continue adjusting as sales continue to settle.

Note all graphs were updated July 2011.

IMPROVED LIFESTYLE SALES: LAKES DISTRICT



Wanaka:

The reported increase in residential property sales in the main centres is occurring in Wanaka with more sales reported recently, particularly in the \$300,000 to \$800,000 range. The markets away from Wanaka; Albert Town, Hawea and Luggate however remain very slow with few recent sales.

The overall decline in property value is an ongoing reality, but with the occasional sale now above market level. The \$400,000 to \$600,000 residential market remains tight with no sign of values lifting. Vacant section sales are mixed with few sales, the secondary market often discounted, but with new sections in Peninsula Bay once again achieving \$300k and more. Price rebating that was common earlier this year appears to have stopped. The top end residential market is slow, but with some sales in the \$1,300,000 to \$2,000,000 plus range. The higher end of the market once again appears to be attracting buyer interest at 2008/09 value levels, along with well designed and well built homes with Lake Wanaka and alpine views.

The apartment market continues to be shaky without any sign of recovery or confidence returning.

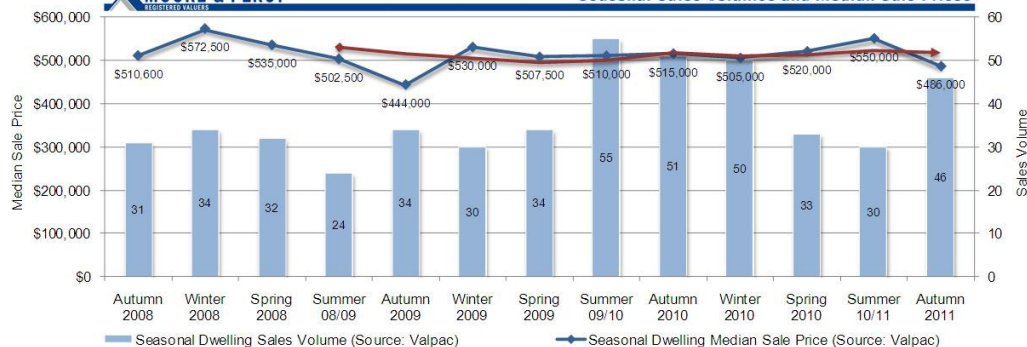
The lifestyle market remains quiet with few improved sales reported, prices often well below historical value levels and minimal to no buyer interest in bare land blocks. The situation with vineyards is similar with only minimal buyer interest and no recent sales reported in the Clutha area.

It is apparent the effects of economic recession and loss of the 25 to 35 year old demographic group (particularly building sub-contractors), Christchurch earthquakes plus recent problems

in the dairy and grape growing industries continue to be felt through out Central Otago and Queenstown Lakes districts, with reduced demand for all property. Having said that there is buyer interest from Christchurch with Cantabrians seeking to relocate.

The greater rural market for farm properties continues to show a low sales volume overall but with some recent sales suggesting confidence is returning.

RESIDENTIAL DWELLING SALES: WANAKA



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