

SPRING 2005

Rotorua Property Insight



**Commercial / Industrial • Residential & Lakes • Rural
• Forestry • Lifestyle • Tourism**



REID & REYNOLDS LTD
REGISTERED VALUERS & PROPERTY CONSULTANTS

Ph 07 348 1059
info@randr.co.nz



Property Strategies
ADDING VALUE TO PROPERTY

Ph 07 346 0525
joanne@propertystrategies.co.nz

1231 Haupapa Street, PO Box 2121
Rotorua, New Zealand
Fax +64 7 347 7769
www.randr.co.nz

Photograph courtesy of
Rotorua District Council

General Property Market Review

Welcome to the second of our market reports, which is a joint production of Reid and Reynolds Limited (Registered Valuers), and Property Strategies (Property Managers and Consultants).

This publication is distributed annually with a six month update being introduced this year. In it you will find comprehensive and accurate market data giving you an overview of the Rotorua property economy, major drivers and influences, and how Rotorua compares with national figures.

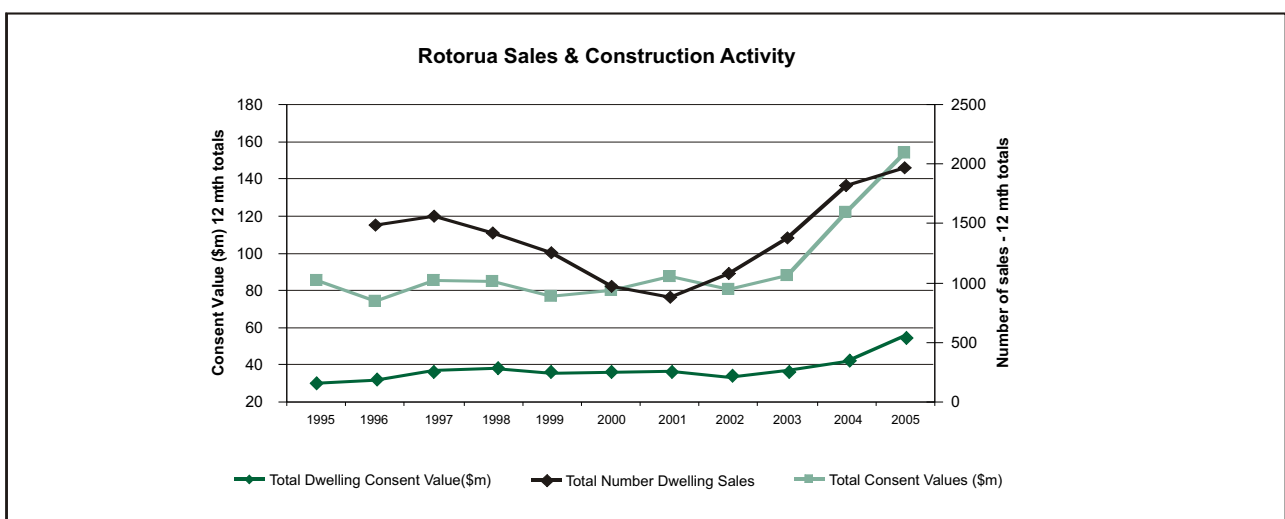
A buoyant property economy is being enjoyed in Rotorua and throughout most of New Zealand. This is reflected by steadily increasing house prices and sales by volume, and increasing demand for investment property as an option to monies in the bank and fixed term interest bearing accounts. Demand is still supporting most sectors of urban and rural property markets, the latter underpinned by strong commodity prices from primary industries (with the exception of raw wood products). Urban confidence is, however, closely watching the immigration trends and increases in the official cash rate while rural confidence is continuing to be tempered somewhat by the strong value of the New Zealand dollar.

There are therefore some trends that are prompting investors to be careful in making their choices and getting the fundamentals correct. Economic growth in the Bay of Plenty region has performed less strongly against national figures in the last 12 months than the previous year. It has slipped from being in the top three performing regions by year on year growth of economic activity to being in the lower quartile at 2.2% (National Bank statistics). This is indicated by several factors that include the number of businesses in Rotorua increasing by 5.4%. Tauranga business numbers increased 12.1% in the same period and the national average by 9.4%. The Rotorua population is estimated to have increased only 0.5% to the year ended June 2004 (Statistics NZ population estimates). This ranks Rotorua 24th out of 49 centres and represents one of the biggest challenges facing the city. Tauranga estimates of population growth are 3.0%, and Taupo 1.4%.

Visitor population growth to Rotorua is very strong, and continues to be a major player in the local economy. June 2005 regional tourism figures show that 1350 staff are employed in the tourism sector. It has, however, been as high as 1560. International arrivals nationally are up 5.3% for the June 2005 year. Guest nights in Rotorua are up 2.6% in June 2005 on a year ago, compared with 7.1% nationally.

Construction growth shows dwelling consents for year ended June 2005 increased in number by 8.6% and 31% in value over the previous year. Total construction by consent value increased 26.3% and by number 10.3% over the previous year. Some of these increases reflect the wave of consents being lodged before changes in the new Building Act take effect.

Predictions are for continued steady growth in values, but with some softening in volumes as investors switch attention to increases in interest rates and the continued strength of the stock market. Rotorua still remains somewhat undervalued compared to other urban centres. The median house price is 69% of the national median, which may cushion some significant property market changes felt in other regions.



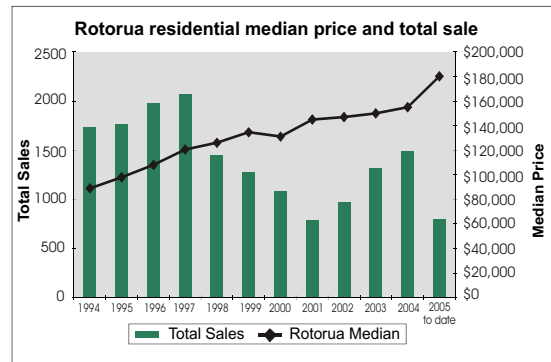
Rotorua Residential

The Rotorua residential property market has been buoyant over the past six to twelve months. Real estate agents are still reporting good buyer interest, particularly up to \$400,000, with out-of-town investors still in the market.

Sales volumes have eased after very high levels in previous months. There were 176 sales in July 2005 compared with the high of 232 sales in March. This shows there are still reasonably high levels of activity compared to previous years. The annual moving median sale price continues to increase; it is now \$167,000, with the July median sell price at \$195,000. The number of sales for the year-to-date shows an increase in volume of 5.7% on the corresponding previous 12 months.

There is still strong demand from local and out-of-town investors up to \$400,000. Some agents report less buyer interest now above this level compared to previous months. This could be partly due to a new subdivision "Parkland Estates" which came on the market and most sites sold within two weeks. Real estate agents also report a lack of listings.

The average 'days to sell' has been ranging from 21 to 33 for most of this year, but this has reduced to 19 days - the lowest number for ten years. Values are going up, particularly for vacant sections which are now in short supply. The national scene is generally showing some signs of market slowdown in certain locations and this could happen in Rotorua. The graph illustrates the upward movement of sale prices and sales volumes in Rotorua since 2001.



Our detailed analysis of individual suburbs shows Tihi-O-Tonga, Matipo, Lynmore and Kawaha Point to be the top four suburbs in dollar value, with Kawaha Point being influenced by the sale of lakeside properties. It is noted that value growth has been particularly high in the more sought after suburbs of Tihi-O-Tonga, Matipo, Lynmore and to a lesser extent Glenholme. There has also been a noticeable increase in value levels in the lower priced suburbs such as Fordlands, Koutu, Holdens Bay/Hannahs Bay, Western Heights and Fenton Park. This reflects the increase in investor activity in the market.

Short Term Capital Gains For Residential Investors

A number of properties have been bought and re-sold within the past six to twelve months with significant capital gains on the original purchase price. The percentage increase has been as high as 3.2% per month for properties requiring little work and averaging at 2.4% per month. For properties which have been redecorated and internally modernised, the capital gains were up to 8.8% per month.

Demand Remains High For Residential Sections

Vacant residential sections have also been a good investment with several sections bought and resold, particularly in the Baxendale and Lynmore Vista Estate subdivisions. One of the sections reflected a capital gain of 11.9% per month and was then resold for a third time, with a capital gain of 9.6% per month. The next highest section resale reflected capital gains of 4.5% per month and generally the capital gain averaged out at 2.8% per month. This table shows the top six sections resales.

Address	Original Price	Resale Price	No. months	% change per month
18 Great West Road	\$78,000	\$115,000	4	11.9%
18 Great West Road	\$115,000	\$148,000	4	9.6%
3 Linden Place	\$85,000	\$158,000	19	4.5%
22 Great West Road	\$80,000	\$119,000	14	3.5%
9 Linden Place	\$118,000	\$146,000	6	4.0%
2 Stafford Rise	\$104,500	\$135,000	8	3.6%



Residential Rental Market 2004-05

There has been very good demand for multi-unit residential properties in Rotorua, particularly over the latter part of this year, with demand outweighing supply. Demand has come from both local and out-of-town purchasers resulting in a noticeable reduction in required yields (and consequent rise in values) around this type of property.

In late 2004, net yield levels (on market rentals after expenses and vacancies) were generally 7% to 7.75% for multi-unit residential investment properties. These levels have fallen throughout 2005 and are now generally in the 6% to 6.75% range. A nine-unit property in Malfroy Road sold in May 2005 at a level equivalent to 7% on net rentals. The same property sold in May (2004) in need of redecoration, at a rate equivalent to 8.6% on net rental levels.

Some properties are also selling below the above range i.e.: below 6%. These will generally only sell at these levels if some added incentive is attached to the property, such as a better-than-average standard of maintenance, individual titles or potential for further development. Several inner city properties in high density residential areas with average-to-tired buildings are selling considerably below the above range, possibly for development rather than a return on rentals.

Typical rental levels -Rotorua	
Type of unit	Common rental range
Bedsit unit	\$100-\$130
Single bedroom	\$110-\$150
Two Bedroom	\$125-\$170
Three bedroom flat	\$150-\$200
Three bedroom house	\$180-\$250
Four/five bedroom house	\$200-\$300
New executive-3/4 bedroom	\$320-\$400
Tidy Lake edge	\$400-\$500

Rental levels have increased slightly over the past year. These may move further particularly at the lower end, and this is in our opinion, linked to the economic climate and government policies. (See table).

These yield levels are at their lowest for several years and when considering rates on alternative forms of investment, it seems buyers are factoring in some future value growth. This would depend on rental growth and/or increased future demand, neither of which is guaranteed.

Tokoroa Residential

In the Rotorua Insight (October 2004) we outlined how Tokoroa house prices had declined over a number of years due in the main to job layoffs and uncertainty over the Kinleith Mill.

After 2002, prices started to firm as demand from out-of-town investors increased. Over the past 12 months, the residential property market has only moved in one direction - upwards.



The Tokoroa residential sector is made up of three distinct types of property. The township was established in the 1950s and 1960s and was made up of compact New Zealand Forest Products weatherboard and weatherside cottages. In the 1970s large areas of weatherside and fibroplank group style housing were developed on the southern and northern sides of the township. In the late 1970s and 1980s small pockets of executive style housing were developed on the southern fringes and the northern edge of town.

The past 12 months has seen a large influx of Australian investors into the market, a number of new residents shifting to the town and increased confidence within Tokoroa has seen locals more interested in purchasing investment and 'doer upper' properties. This extra demand has put big upward pressure on sale prices. We are aware of 21 residential properties selling and then re-selling within the past 12 months and our analysis shows most properties increasing in value between 3% and 8% per month. 2004 saw a record number of 664 sales take place and into 2005, the median sale price to date is at \$70,000 up from \$60,000 last year.

With interest rates rising in the past 12 months and house prices boiling over in other parts of the country, the general national residential scene has slowed down which is yet to be reflected in Tokoroa; however the prospect of the same happening in the coming months cannot be ruled out.



Lakes



Good quality lakeside and coastal sections have proved to be an excellent investment. Not only do they have lifestyle and recreational benefits, but their capital growth has outstripped most other forms of Real Estate investments.

Over the past three years the median sale price for freehold lakeside properties has experienced significant capital growth. Table 1 indicates that for properties adjacent to Lakes Okareka and Tarawera, the median sale price has annually compounded by a massive 32%. The majority of this growth occurred during the year 2004.

Recent issues about water quality, have meant that values for Rotoiti freehold lakeside properties have shown a more modest annual compound rate of 16%. Prior to the deteriorating water quality of Lake Rotoiti, a strong correlation existed for values between this and Lake Tarawera. For those who believe the proposed remedial works will restore the water quality for Lake Rotoiti, there could be significant profits in store.

When considering the annual number of transactions for each lake, the market is relatively thin, where on average 8-10 lakeside sales per occur. Our analysis indicates a possible decline in sales volume.

As out-of-town purchasers have a significant influence on this market, comparisons have been made with nearby locations. Enquiries have been made to establish the price range for average quality homes located on good coastal or lakeside properties. For purposes of comparison, the price band for Rotorua lakes has excluded Lake Rotoiti. These are illustrated in Table 2 which illustrates a strong correlation between Lake Taupo and the Rotorua lakeside market. Currently purchasers are showing a preference for coastal sections and there is a reasonable correlation between Coromandel and Northland. In the past a closer relationship between coastal and lakeside properties has been noted.

If this former trend was to be restored, lakeside values may be currently undervalued.

Table 1

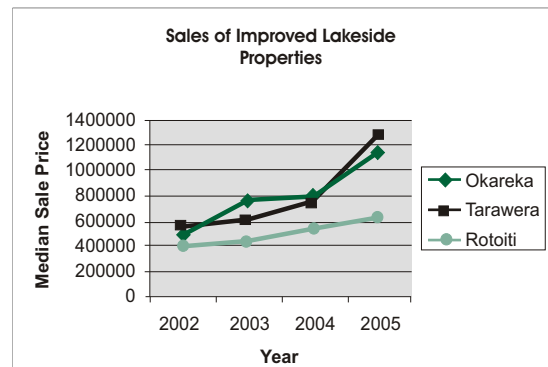


Table 2

Good Lakeside/Coastal Section With Average To Good Dwelling	
Location	Range \$(millions)
Rotorua Lakes	\$0.9 - \$1.8
Taupo Lakeside	\$1.0 - \$1.8
Coastal Coromandel	\$1.2 - \$2.6
Coastal Northland	\$1.8 - \$2.5



Rural Lifestyle

Over the past 12 months, agents have reported strong interest from a variety of purchasers seeking properties in rural locations. There have been a good number of sales of improved lifestyle, smaller improved rural residential properties and vacant lifestyle block sales during this period. It would appear the principal driver is location with people seeking a rural environment either close to good schooling and/or views with or without lake aspect. Land area is not considered to be a significant factor and the traditional lifestyle block of 4 hectares+ is in less demand than smaller rural residential properties where the additional land area can be turned into extensive garden or grazed by adjoining farmer neighbours.

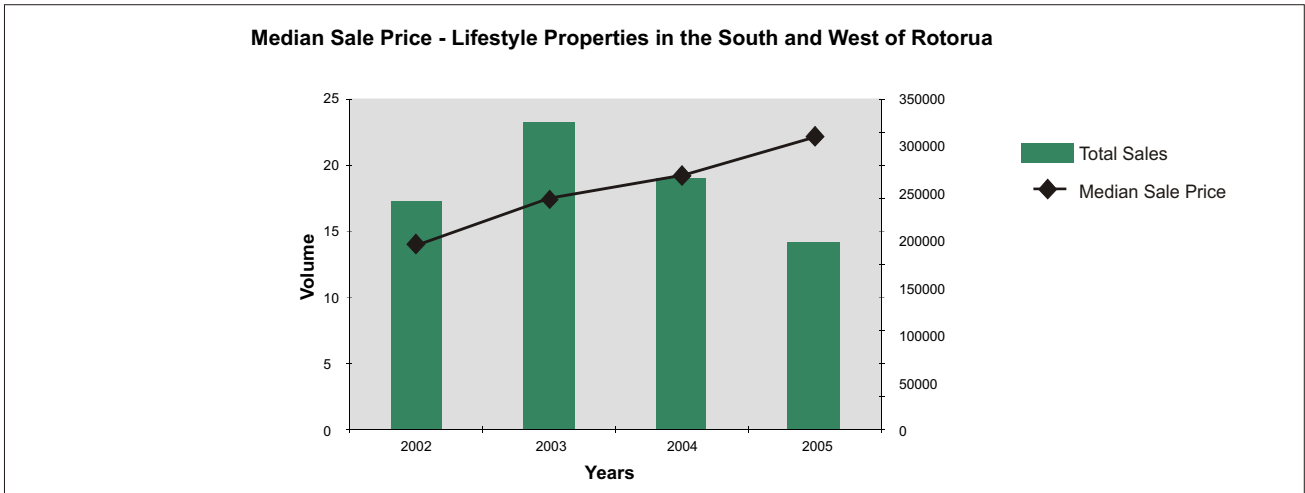


Table 1 highlights the number of sales and the median sale price recorded for the rural settlements of Mamaku, Horohoro, Ngakuru, Waikite Valley and Reporoa. The graph shows that the volume of sales has remained relatively constant albeit that the 2005 year includes only those sales which have occurred prior to August. It is expected that by the end of the year, the sales volume will be the highest recorded. This is a reflection of the demand for rural living throughout the Rotorua District. The median price of \$309,000 for improved lifestyle properties between 1 and 5 hectares represents a 16% increase over the past 12 months and 58% over the past three years. The solid growth in values of lifestyle properties is greater for properties within the Rotorua Basin where closeness to the lakes and city amenities has created substantial capital growth.

The level of demand which exists for lifestyle properties within the Rotorua Basin is demonstrated by the recent release of Stage 4 at Brunswick Park which was 85 per cent sold within three months at the time of writing. Pukehangi Road, another high quality rural residential subdivision on the hillsides overlooking Lake Rotorua has sold similarly well. A restricted supply of these types of properties has further created pressure on values and it is anticipated that the last stage at Brunswick Park, to be released shortly, will see values climb even further. It is anticipated that the strong demand will continue but a number of issues are clouding the picture:

- Rule 11: Properties within 5 lake catchments will be subject to restrictions on stocking, fertiliser application/land use.
- Rising fuel costs may limit demand for rural properties located further away from main centres.
- Increased working hours are reducing the time available to maintain lifestyle properties and it is expected that demand will focus on smaller rural residential properties and those larger lifestyle blocks will be most attractive where there is an alternative land use, and/or a third party able to undertake management.



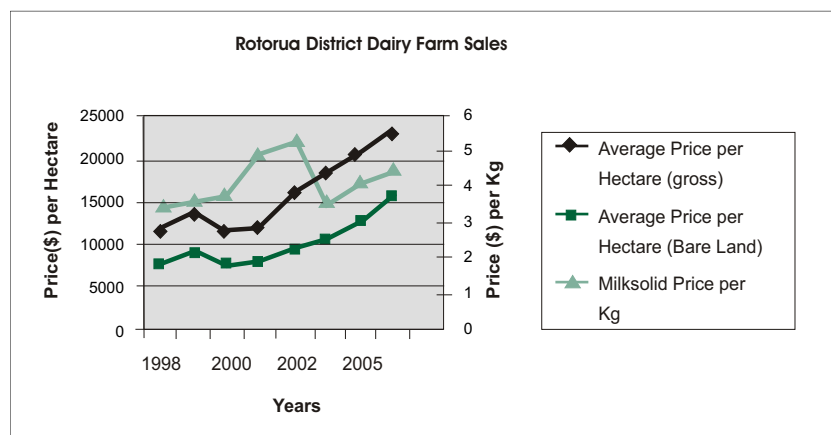
Rural - Dairy

The 2004/2005 dairy season was particularly active in terms of dairy farm sales. We recorded 22 confirmed sales, an increase on the previous two seasons of 15 sales in 2002/2003 and 19 in 2003/2004 seasons.

The average price per hectare in this period has increased 26% with an average sale price recorded per hectare inclusive of dairy shares standing at \$22,849 per hectare. The general trend of rising values continued throughout the season with farms selling at higher levels on a \$/kg basis during the latter part of the season. There are a number of reasons promoted for this increase in values.

At the start of the season Fonterra advised a likely payout below \$4 per kilogram of milk solids and this was revised several times throughout the season, and was finally set at \$4.59 which represented the third highest payout on record. This was an increase from the \$4.22 in the previous season and has contributed to a buoyant dairy market economy. Fonterra also advised of an increase in share value for the forthcoming 2005/2006 season to \$5.44 per standard share, up from \$4.69. This appears to have automatically been transferred across into dairy farm values.

Following three profitable seasons many dairy farmers have been looking to expand farm size. A number of sales have been to adjoining farmers whilst also several sales have been to farmers from other districts. Waikato farmers in particular have looked at Bay of Plenty as offering a lower cost of entry into the farmland market.



Future Market Conditions

Our firm's analysis of a limited number of sales within South Waikato provides an average sale price around \$32 per kilogram of milk solids and with several sales now nearer \$40 than \$30. This relative imbalance between the two districts is expected to continue to create demand within the district from farmers outside of Bay of Plenty. Fonterra has issued a cautionary note regarding payout in the foreseeable future.

There has been little activity within the dairy farm market at the start of a new season. There is a shortage of farms listed and continued pressure from farmers with both cash reserves and equity is likely to contribute to values remaining at current levels, or firming further. There will be limited opportunity to acquire dairy farms below \$30 per kilo.

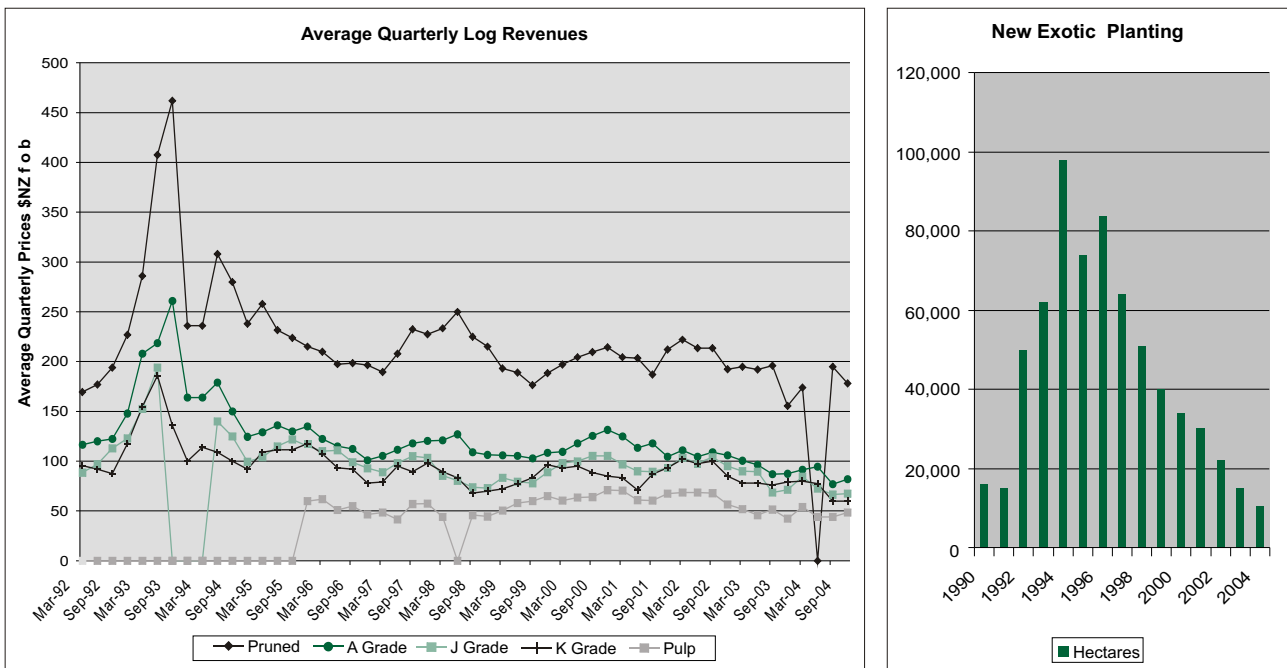
One side issue is the amount of forested lands which are now being marketed for dairy conversions. Another factor to watch is the implementation of regulations by both Environment Waikato and Environment Bay of Plenty to protect water quality of the Lakes and these will constrain land use and farming practices.



Sale of Forestry Lands for Dairy Conversion

Since the late 1990s pastoralists have created a demand for previously forested lands. The initial demand came from South Waikato farmers who adjoined the Kinleith Forest owned by Carter Holt Harvey (CHH). Increased levels of confidence within the dairy sector and a greater level of understanding of the conversion process have seen the demand increase. During the same period the fundamental economics of forestry have been in decline. This has therefore provided foresters with a window of opportunity to redefine the land's underlying highest and best use. Upon harvest, foresters must now determine whether it is better to on-sell the land or replant.

The following tables illustrate why the economic viability of the forestry section is being challenged and the ongoing effects. Table 1 illustrates that in nominal dollars, revenue from the various log grades have been in decline since 1993. As a result of the declining levels of confidence within this sector, the national level of new exotic plantings since the mid 1990s has also been in decline. This is shown in Table 2.



While the initial sales for pastoral conversion were confined to lands within the CHH Kinleith Estate, other foresters have now entered the market place. In 2000 GSL Capital offered for sale previously pastured lands now supporting a short rotation Eucalyptus crop. In general the vendors retained a short term Forestry Right over the crop paying a rental of 7% of purchase price. Towards the end of 2004 the Kiwi Group entered the market place selling previously forested lands owned by Fletcher Challenge Forests. These have been acquired for a variety of end users ranging from potential hydro electricity sites to pastoral conversion. In early 2005, CHH offered 39 freehold parcels of forested lands for sale. While the majority of these blocks were acquired by Rayonier, a corporate forester, four small lots encompassing 574 hectares located within the Bay of Plenty were acquired for pastoral conversion. In summary, since the year 2000, 23,000 hectares of previously forested freehold lands have been acquired for pastoral conversion.

Apart from specialist end users and locality, contour is a principal value driver. Premiums are being achieved for lands capable of cultivation by conventional wheel tractor. This class of land possesses a greater diversity of land use and is easier to develop. It is however noteworthy, that where lands on offer are subject to medium to long term Forestry Rights, then the market applies significant discount. The extent of the discount is dependant upon the unexpired term and how the wood-lot may hinder development.

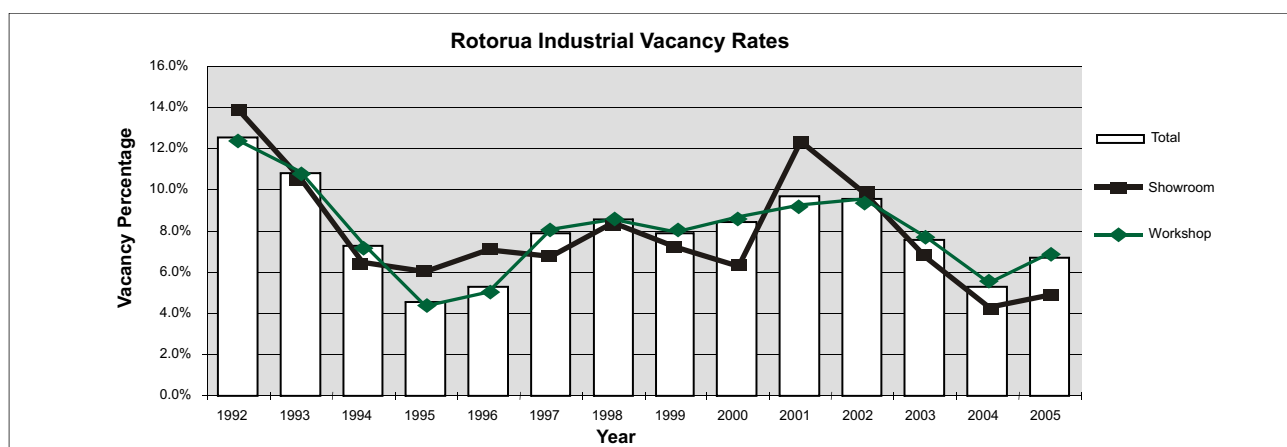
Since the 1980s the market has acknowledged the land use of pastoral properties is mobile. We have seen horticultural development of dairy units and the conversion of fattening units into dairying. The latest trend of pastoral conversion of previously forested lands is however a new phenomena. The longevity of this trend will not only be dependent upon the market but also constraints imposed by territorial and regional authorities.



Industrial Summary

Significant building activity and considerable rises in the value of short supply vacant industrial land characterised Rotorua's industrial market in the past year. Our annual survey of industrial buildings shows floor area has increased almost 3% since 2004. This is part due to the development of many larger buildings including Bunnings on Old Taupo Rd, and new buildings in Tallyho St, Hamiora Place, Hyland Crescent, Geddes Rd and in the Eastgate Business Park Industrial area. It also reflects the confidence of local participants and continues a five year trend of significant new industrial construction.

As a result, significant land value increases are being seen as the supply of suitable land is squeezed. General industrial land values for smaller areas below 3000m² have nearly doubled over the past 12-18 months. These properties were selling in the \$50-\$60 per m² range, but the latest sales show values in the \$100-120 range with even higher levels in isolated cases. This has heightened interest in 'underdeveloped' properties which have minor and possibly obsolete buildings. Values have also risen for high profile main road sites, as seen in the September sale (at auction) for \$1,105,000 of a 2113m² car yard site containing a refurbished home, site office and workshop on Fairy Springs Rd.



Vacancy rates have leveled from last year's low point, but remain at the 4th lowest level we have recorded. Slight rises in vacancy rates were recorded in all sectors and locations except for main road properties and average quality showroom and retail space. Vacancy levels for warehouse/workshop accommodation within Rotorua have increased from 5.5% to 7% of the stock available (shown in the graph above). Levels for showroom and office space show a small vacancy increase of 0.6% from 2004 to 2005. The increase in warehouse/workshop vacancy levels is not surprising given the increase in total stock. There is now 31,700m² of vacant workshop/warehouse space, still significantly below the 39,930m² recorded in 2002. By far the largest proportion is located in the Westside industrial area, the oldest and largest estate with over 48% of the total stock, excluding the main roads.

General workshop rentals have remained at similar levels to last year. We do note some increases for better quality space, particularly in the eastside areas, and rising rentals for good showroom/warehouse space in higher profile localities. Market rental rates for workshop space in westside generally range from \$40 up to \$60 per m² of floor area, while rates for the showroom/office spaces without significant profile range between \$65-\$85 per m². For eastside workshop space, rentals range mainly between \$45-\$70 per m² with office/showroom areas generally in the \$75-\$90 range. The rental range for main road location industrial showroom/office space is now \$80-\$140 per m², exceeded in some instances for better quality new space.

There is very good demand from local and out of town investors for tenanted industrial property but only a limited offering for sale. Demand is particularly strong for well tenanted and well located properties. Most sales over the past year have been under \$500,000 with yields in the 9.5-11% range. Demand is also strong for vacant land of good size for development and also for vacant possession industrial/workshop buildings with high stud and good yard space. At higher price levels, investors have generally attached a discount to vacant properties or those without solid lease terms or perceived strength of tenant.

In summary, the market remains confident and somewhat bullish. The continued construction activity indicates long-term intentions by investors and tenants. Given these factors, the shortage of suitably located vacant land for development and reasonably low vacancy rates, we predict further pressure on land values creating eventual upward pressure on rental levels, particularly in respect of better quality space.



Tourism

It has been predicted by international economists that tourism will be the world's biggest industry by 2020. New Zealand is ideally placed to take advantage of this, and significant for Rotorua is that its physical attributes and established tourism infrastructure continues to be a key player in the New Zealand tourism market.

In December 2004 international visitor nights in Rotorua exceeded 1.4 million annually for the first time with predictions that this will increase to 1.9 million nights by 2010. The Tourism Research Council of New Zealand forecasted in 2003 that the international visitor spend in Rotorua would increase 5.9% annually until 2010 and results for 2005 already reflect this.

This is also reflected by the key tourist accommodation property statistics to July 2005 for the Rotorua area. These are as follows with the arrows indicating whether the results are above \uparrow or below \downarrow 2004 results.

Sector	No of Properties	Average Daily Capacity	Total Visitor Arrivals	Average Length of Stay	Average Occupancy
Hotels	20 \uparrow	1,853 \uparrow	423,919 \downarrow	1.8 =	64.6% \downarrow
Motels	78 \uparrow	1,316 \downarrow	355,910 \downarrow	1.9 \uparrow	57.4% \uparrow
Hosted	27 \uparrow	150 \uparrow	17,873 \downarrow	1.8 =	29.9% \downarrow
Backpackers	11 \uparrow	1,036 \uparrow	114,326 \uparrow	1.8 \downarrow	56.9% \uparrow
Caravan parks	14 =	1,646 \uparrow	154,811 \uparrow	1.9 \downarrow	21.9% =
Total	150 \uparrow	6001 \uparrow	1,066,839 \uparrow		

Source: Statistics New Zealand Commercial Accommodation Monitor for the year ended 2005.

Market Factors

There are a number of current or potential factors impacting on the tourism property sector including:

- The redevelopment of the Sportsdrome into the Energy Events Centre increasing Rotorua's ability to hold major indoor events and large conferences.
- The upgrade of the Rotorua Airport and the continued push for trans Tasman flights.
- The continued reinvestment by major tourism players such as Skyline Skyrides and Te Puia.
- The future potential for Rotorua as a spa resort given the worldwide increase in demand for spa and massage therapies.
- The continued benefits from major events such as the World Mountain Bike Champs in 2006.
- A new motel presently being constructed on the corner of Grey and Fenton Streets.
- The South Pacific Motel on Lake Road which has been demolished in readiness for redevelopment.
- The only negative and still unknown is what impact the recent price hike in fuel costs will have on tourism markets and also whether any weakening of the New Zealand dollar will have any impact.

In the market place the number of sales of freehold going concern motel properties is down on 2004 although price levels continue to firm. This is largely due to there being fewer properties offered for sale. Conversely the volume of sales for leasehold motels has shown a marked increase since 2004 and in general price levels show moderate growth.

In summary the future continues to look sound for the Rotorua tourist accommodation sector. However this may be offset slightly by the uncertainty caused by recent fuel price rises.



Commercial Office & Retail

The commercial property market in Rotorua continued to remain very strong this year as commercial markets in some other regional centres appeared to slow slightly. Rotorua remains a target for a wide range of investors, particularly from out of town. Sales volumes have slowed only because of a shortage of properties for sale. Demand is still strong. Good quality, well tenanted properties continue to sell quickly.

Rentals

Retail rental levels have firmed in the prime areas, particularly Tutanekai Street between Pukuatua Street and Amohau Street where there is good demand for retail shops. This is a flow on from the very successful Rotorua Central development where space is now at a premium.

In our last survey of retail vacancy rates (December 2004), overall vacancies had dropped to 8.11%, the lowest since 1989. Rental levels have remained steady for space on the fringes of the Central Business District, but there continues to be some uncertainty caused by the impending relocation of Farmers to Rotorua Central in early 2006. This will leave two large city stores unoccupied. It is worth noting some suburban rental rates have increased, particularly in well regarded centres such as Ngongotaha, Westend and Te Ngae. Vacancy levels in the suburban shopping centres appear to have decreased.

There continues to be a shortage of prime good quality office space to lease. The overall vacancy rate in December 2004 was up slightly at 15.9% (14.7% in 2003). The large proportion of vacancies was for fair to poor quality space. Rental rates for average to good quality space have shown modest growth. There continues to be good demand for small tenancies of up to 200m² providing good quality space in fringe locations, particularly west of Ranolf Street. This has placed considerable upward pressure on price levels in this area.

Typically rental ranges are as follows:

Type	Net Rental Range	Movement from 2004
Prime Tutanekai Street retail	\$300-\$500 per sq metre	↑
Secondary retail	\$180-\$300 per sq metre	=
Fringe retail	\$100-\$220 per sq metre	=
Prime ground floor offices	\$160-\$210 per sq metre	↑
Prime upper floor offices	\$140-\$190 per sq metre	↑
Secondary offices	\$90-\$140 per sq metre	=
Prime fringe offices	\$160-\$220 per sq metre	↑
Suburban commercial	\$90-\$150 per sq metre	↑
Large format retail stores greater than 800 square metres	\$120-\$160 per sq metre	↑



Sales activity

Commercial sales continue to be strong with a lack of supply the main limiting factor. Recent sales include:

- **Corner of Arawa and Fenton Streets:** The Radio Works and Credit Union buildings sold in June 2005 for \$2.6 million showing an overall return of around 8.6%.
- **1227 Hinemaru Street:** Two storey office block sold in June 2005 for \$800,000 showing 9.9%

The yield levels have continued to firm since last year and can be summarised as follows:

Type	Net Yield	Price Movement from 2004
Prime retail	7.5-9.0%	↑
Secondary retail	8.5-10.0%	↑
Prime offices	7.5-9.5%	↑
Secondary Offices	9.0-11.0%	↑
Leasehold tenanted	8.5-12.0%	↑

With the shortage of supply investors have ventured into other secondary markets such as leasehold investments and fringe CBD property. Price levels for these properties are now at the highest levels since the early 1990's and it would appear that vendors have seen this as a good time to divest them.

The lack of good quality office space is putting pressure on land values with an unsatisfied demand. Developers are now looking to redevelop existing buildings as evidenced by a redevelopment in progress on the corner of Tutanekai and Pukuatua Streets.

Looking to the future there is a degree of uncertainty caused by the election. The promise of tax cuts, however, by the major parties may create further opportunity for property investment. The commercial market in Rotorua remains confident and we believe this will continue at least in the short term.

We hope you have enjoyed our report.

If you know someone who would like to receive future reports, please contact us at valuer@randr.co.nz or on +64 7 348 1059. If you would like to speak to one of the team from Reid and Reynolds or Property Strategies about specific investment, management or sector advice, we are available as follows:

REID & REYNOLDS

Hugh Reynolds
Grant Utteridge
Sharon Hall
Monica Quirke
Paddy Hayes
Martyn Craven
Kendall Russ
Samuel Lees
Geoff Edmonds

Rural, Forestry, Lakes
Commercial, Industrial, Tourism
Residential
Commercial, Industrial
Commercial, Industrial
Rural, Lifestyle, Lakes
Residential
Rural, Lifestyle, Lakes
Residential

hughr@randr.co.nz
grantu@randr.co.nz
sharonh@randr.co.nz
monicaq@randr.co.nz
paddyh@randr.co.nz
martync@randr.co.nz
kendallr@randr.co.nz
saml@randr.co.nz
geoffe@randr.co.nz

PROPERTY STRATEGIES

Joanne McCracken

Commercial, Industrial, Property Management,
Investment advice, Local Authority Consultancy

joanne@propertystrategies.co.nz

1231 Haupapa Street, PO Box 2121, Rotorua, New Zealand
Fax +64 7 347 7769 www.randr.co.nz

DISCLAIMER: This document has been prepared by Reid and Reynolds Limited and Property Strategies (Rotorua) Limited. All opinions, data, statements and analysis included are based upon information from sources that are believed to be authentic and reliable. No invitation is issued to any party to rely solely upon this publication and its contents. We intend by this statement to exclude liability for any such opinions, data, statements and analysis.



REID & REYNOLDS LTD - REGISTERED VALUERS
+64 7 348 1059

PROPERTY STRATEGIES - ADDING VALUE TO PROPERTY, PROPERTY CONSULTANTS
+64 7 346 0525

