

Rotorua Property Insight Update

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Introduction

Following on from our widely read Property Insight Magazine published last October we present a six monthly update with our pick for performance in the sectors over the next six months.

Generally, slower conditions are being reported across market sectors, although the real estate industry is defiant to reports of price fluctuations. The greatest fall in confidence has been evidenced in the residential market but it is debatable if this has yet been reflected in values.

This begets prudent investors in any field to seek the latest market advice which the team at Property Strategies and Reid and Reynolds Limited will be happy to assist with.

COMMERCIAL AND INDUSTRIAL

Commercial

Since the middle of 2005 sales volumes for tenanted properties have slowed however this is due to a distinct lack of properties being offered for sale. Yields have continued to firm but there has recently been the first evidence of buyer's expectations being less than the vendor's, and this may result in a further slowing of sales activity. Retail vacancies have definitely increased since our last report with Farmers vacating two large stores in favour of their new flagship store at Rotorua Central. This will be further amplified by three other retailers shifting into a new building being erected on the Rotorua Central land.

Industrial

Recent months have seen a tapering off of demand and enquiry for showroom/warehouse space within the industrial leasing market. This contrasts with what was a solid letting period and enquiry through 2005. There still appears to be good demand for suitably located vacant industrial land reflecting the shortage of supply. Likewise there is good demand from local and out of town investors for tenanted industrial property, particularly well tenanted and well located property, but only a limited offering for sale. Strongly tenanted properties in good locations have sold in the yield range 7.6% to 8.6% up to one million dollars. Lesser located tenanted property has sold up to 9.4%. Vacant possession properties at lower price levels have met with good response, where owner occupiers have been more dominant than investors.

TOURISM

The industry has seen confident steady growth over the last two years however indications are that this may now steady. There is a shortage of good property on the market and when it is available, it transfers quickly. Buyers constitute a wide sphere of operators however recent overseas immigrants have been more active.

RESIDENTIAL

General

House prices in Rotorua have continued on an upward trend since October 2005, with the monthly median price ranging between \$192,000 to \$214,500 for the last four months.

An example of demand was the recent release of vacant sections in Stage 2 of Baxendale with a high level of interest and all sites selling on the release day at or above reserve prices and ranged from \$154,000 to \$207,000. Good quality well maintained homes in the upper price bracket are selling quickly, however we are starting to see some delay in selling the not so tidy. At the lower end, market rents have struggled to increase at a similar level to values and investors are finding it harder to get an adequate return on investment. We are anticipating that prices may soon enter a period of low growth, as in other parts of New Zealand, supply catches up to demand.



Tokoroa and Putaruru

Since our last report, house prices in Tokoroa have continued to rise with the median sale price finishing 2005 at \$75,000, up from \$60,000 in 2004 and \$50,000 in 2003.

In 2006 we have noticed several 'ridiculous' prices being paid which is a sign that the market may be starting to overheat. Tokoroa was a late performer compared with other New Zealand towns, and as other areas have already cooled, the signs are that the end of this fruitful season may not be too distant.

Multi-unit Residential

There is still good demand for blocks of residential flats with demand outweighing supply. The leasing market appears balanced with average demand for rental accommodation particularly close to the town centre. Properties that are tidy and being offered to the market in the range 5.5% to 6.5% return on net rentals, will generally sell dependent upon individual attributes. With rentals now appearing full, yields levels below the cost of finance and less optimistic general economic conditions, it is difficult to see much upside to the value of such property.

RURAL

Lakes

2005 concluded with a lower volume of sales recorded at Lakes Tarawera and Okareka than previous years. The median sale figure has continued to rise, standing at \$567,000 for the December 2005 quarter – an increase from \$455,000 12 months earlier. These figures however, we consider to be distorted by the sale of two prime lakefront sites for a combined \$2.55 million. In general terms there has been less purchaser activity and forecasts for 2006 are that the level of capital growth of recent years may not be sustained although prime lakefront will continue to attract a premium.

Rural and Lifestyle

The median sale price of recorded improved lifestyle property sales in areas south of Rotorua peaked in the March 2005 quarter. It is believed that owing to a limited number of recorded sales that quarterly results may show an unexplained deviation. It is apparent however that over the past 3 months sales activity has slowed. There has been a corresponding drop in the median sale price which may be an indication that the previous levels of capital appreciation cannot be maintained.

Dairy

The 2005/2006 dairy season has to date seen a similar level of sales activity as last year with Reid & Reynolds' database containing 17 confirmed transactions to date. The average price per hectare inclusive of dairy shares is \$23,334, well above the \$17,132 per hectare of last season. It should be noted that both these amounts include sales of large-scale farms on the Rangitaiki plateau which have lowered the overall average. In general terms, medium sized dairy farms have sold in a range of \$35 - \$40/ kg, well up on last year. It is expected that values may have reached a plateau with indications from recent market listings that there is price resistance as farmers consider a lower payout this season.

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