

Queenstown Property Market Update

MAC Property 2007

The Queenstown property market has historically trended in eight to nine year cycles from peak to peak, with significant fluctuations in sales volume and prices. The peaks of our last twenty years were 1986, 1994 and 2003. However the difference with the current cycle has been a modest decrease in sales volume and a stabilisation of prices since 2003, as opposed to a trough with significant decrease in both sales and values, which was the case in our last two property cycles.

We believe one of the main contributors to this is the weight of capital or wealth that is currently in the New Zealand and world economy, looking for investment opportunities. The last decade has seen substantial growth in the value of off-shore pension funds, a significant amount of which have been invested into property, the result being a lowering of yields and returns for all investments types, equities and property. It will take a significant share market correction to impact on this weight of capital.

The property market continues to be resilient against floating interest rates approaching 10%, compared to 6.5% in 1998, as well as to the growth in tourist numbers this summer expecting to surpass last years growth; at a time of a comparatively high NZ dollar at around 70 cents US, compared with 52 cents in 1999.

Domestically and internationally, Queenstown is seen as an attractive investment location. The combined permanent and visitor population is forecast to grow from just over 20,000 to just over 40,000 by 2021. (Source: QLDC Community Plan)

Total value of Queenstown building permits last year was in the region of \$200 million. This is consistent with the previous two years, but is showing a reduction in the number of new dwellings, compensated by a significant increase in larger commercial developments. Proposed large-scale multi-million dollar developments have created significant capacity to cater for future growth, with some of the following examples:

- Jacks Point township and resort - Capacity for 3,100 dwellings, circa 7,750 population capacity, zoning in place. Development value as completed circa \$2 billion. Total land area 1,200 hectares.
- Five Mile Township - Development value as completed \$2 billion, population capacity circa 10,000, only stage one currently zoned. Total land area 30 hectares.
- Kawarau Falls hotels and apartments - Development value as completed \$1 billion, circa 1,200 rooms and apartments. Total land area circa 7 hectares.
- Remarkables Park commercial and residential development - Capacity for 1,800 dwellings, circa 4,500 population, zoning in place, significant commercial development completed. Total land area circa 150 hectares.

The following table gives some idea of the capital gains in Central Otago values over the last 16 years. (Source: Quotable Value)

	1990 Median Section Sale Price	2006 Median Section Price	Compounded Annualised % Gain	1990 Median Dwelling Sale Price	2006 Median Dwelling Price	Compounded Annualised % Gain
Queenstown	46,000	392,500	14.34%	120,000	522,500	9.63%
Wanaka	41,991	235,000	11.36%	130,000	502,500	8.82%
Cromwell	15,450	135,000	14.51%	68,000	285,000	9.37%

Taking into account the above median sale prices, one of the main issues facing the area is affordable housing for the community. The Queenstown Lakes District Council has been working on this for a number of years, resulting in the formation of the Queenstown Lakes Community Housing Trust, which has been established to develop and administer an affordable housing programme. Contributions to date have been from developers of Greenfield Developments pledging a percentage of the development to the Trust. Additionally, Council has been considering an Affordable Housing Plan Change which is looking at various options of encouraging all developments to contribute a percentage of future developments to the Trust. Potentially, in future years, the Trust could be one of the major property owners/developers in the area.

Projections:

- The market will continue to be active, albeit at static value levels for the lower to middle end of the market, which is tied to a level of affordability. Whilst higher interest rates will place pressure on values, higher section and build costs will likely underpin existing values.
- Increasing values at the upper end of the market as developers continue to develop for an ever increasing affluent sector of the market.
- Lack of speculative buyers for quick capital gains, as the market remains static.
- Some pressure on new apartment values, originally sold off plans as they resell into the local market.
- The market will continue to develop and grow at an ever increasing rate as the population and visitor numbers continue to increase over the next ten years. Current capacity for growth is at an all time high.
- The main potential risk as always is external. Queenstown's fundamentals are strong, however, a significant share market correction would impact on the discretionary investment dollar that is underpinning a lot of the larger developments.
- Growing demand for fractional interest ownership with new developments as developers look to provide more affordable investment options to the market.