

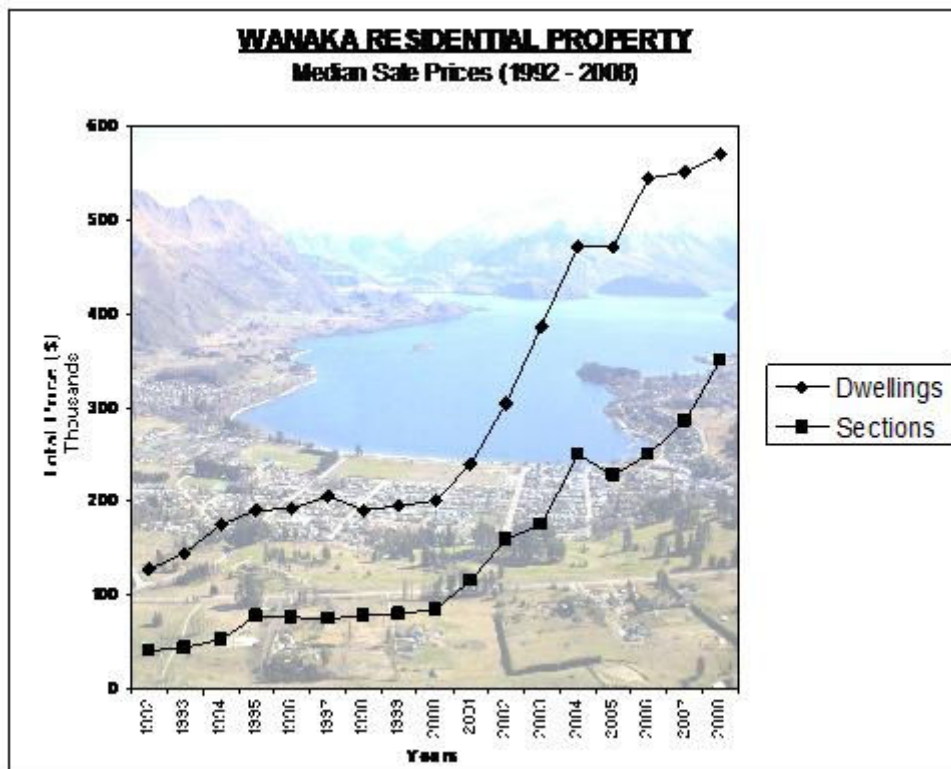
## MARKET COMMENTARY

### *National Overview*

Real estate industry sales statistics for January 2009 show a median house price in New Zealand of \$325,000. Over the past 12 months national median house prices have ranged from \$325,000 to \$349,000. Prices are now approximately 4.3% lower than a year ago. Sales volumes have declined with longer selling periods. These trends are generally symptomatic of a change in market sentiment and tightening conditions, which is placing some downward pressure on prices.

### *Wanaka Residential*

Median property prices in Wanaka currently equate to \$570,000 for houses and \$350,000 for sections. Since early 2000 there has been significant growth in the market, followed by a period of correction, as is evident in the following graph which tracks changes in median sales prices since 1992.



Analysis of sales data from the Southern Lakes region indicates that the market peaked in terms of the last property cycle in 2004 when there was a period of correction followed by further growth in values during 2005 - 2007. An excess of demand over supply for residential property dominated the market during 2001-2004 and drove prices upward. At present the market is in a more balanced state with the number of properties available for sale having increased. The greater choice available to prospective purchasers in some sectors of the market means they have been under less pressure to act quickly therefore being in a stronger position to negotiate. Whilst quality properties and those in lower price ranges are still keenly sought after, it is clear that secondary properties or those that are over priced may experience extended selling periods.

With regard to vacant land the number of new sections on the market, particularly from greenfield developments, appears to be on the decline. Sites are available in West Meadows, Riverside Park and Peninsula Bay, however over the short term few new projects are likely to come onto the market. Speculators are now less active in the market with most interest being generated by owner occupiers and to a lesser extent spec builders.

Affordability remains an issue, particularly at entry level to the market. It is difficult to purchase sections for under \$240,000 and houses for below \$400,000. In addition, a combination of relatively high living costs, high interest rates and insufficient remuneration levels in Wanaka is squeezing many first homebuyers beyond what is a sustainable level. These factors have led to increased demand and strong growth in values in townships such as Albert Town, Hawea, Hawea Flat and Luggate where land has traditionally been cheaper.

### ***Rural / Rural Residential Property***

As with housing, the market for rural residential property has been through a period of adjustment and consolidation. It is however apparent that prime freehold land, in particular those sites close to Wanaka or with excellent mountain views and or water frontage, remains sought after.

Interest remains strong for freehold high country runs particularly those with a frontage to National Parks, rivers or lakes. Off-shore buyers were particularly active in this sector of the market, properties being purchased principally for lifestyle, recreation or development purposes, with the economic return from farming operations often being a secondary consideration. A prime example of this point was the sale of Motatapu Station to Shania Twain. Recent sales of note reflecting these issues include Lake McKay Station near Luggate, and Spotburn Station in the Cardrona Valley, both to New Zealand interests.

It is however also apparent that the Overseas Investment Commission is taking a firmer stance regarding these types of transactions to off shore buyers and this may have some impact on the market in the future. Properties that lack the X-factor are proving difficult to move, particularly if over priced from the point of view of the potential purchaser. Continuing price increases for most services and farm inputs, in conjunction with what many consider to be an over valued \$NZ is putting continued pressure on the export sector. In addition, sheep and beef farmers have experienced lower returns this season which, coupled with the drought in many regions, will have a significant impact on the cash flow and the end of year profit margins.

However, although listings of farm properties maybe high, interest over the past twelve months has fallen to a marked degree – other than for dairy conversion. As a consequence the volume of farms sold has reduced, with the bulk of the properties taking longer to sell, or not selling at all.

Thus, given the present conditions and the various factors that are influencing this, it is anticipated that the number of farm sales will continue to fall, and in addition buyers will become more selective in their requirements, particularly in regard to location, the standard of improvements, production, and significantly, price.

### ***Commercial Property***

The commercial market has to some extent mirrored trends in the residential sector, the strong local economy requiring the provision of more accommodation for a wide range of activities including retail and office space, bars and restaurants, and consulting rooms, as well as light industrial / workshop uses.

A combination of low vacancy levels and high demand for both office and retail space is impacting on rents and in the past 12 months there has been significant growth evident in rentals paid for prime tenancies in central Wanaka (+20%-25%). Rents in Wanaka are still well below those for equivalent space in Queenstown indicating there may be room for more growth in the market.

Commercial properties in Wanaka are tightly held and those in prime locations only occasionally become available for sale. This factor combined with the perception the rental growth will continue dictates that buyers will accept a relatively low yield and this is confirmed by sales evidence. Sales that have occurred for commercial properties over the past twelve months indicate firming yields that would match or better those achieved for prime commercial real estate in other parts of NZ. In several cases properties have sold for yields well below 5%. A number of new developments including expansion of existing buildings in the town centre, Anderson Heights and Ballantyne Road localities are underway. These projects include a mix of owner occupied and leased premises.

Following is a table outlining a summary of rentals, yields and land values for various commercial property types in Wanaka.

<b>Summary of Wanaka Net Rentals, Yields &amp; Land Values</b>			
<b>Property Type</b>	<b>Rentals</b>	<b>Indicate Yield</b>	<b>Land Values</b>
<b><u>Retail/Commercial (ground floor)</u></b>			
Lakefront	\$400 - \$500/m <sup>2</sup>	4.0% - 4.5%	\$4,000/m <sup>2</sup> +
Prime	\$300 - \$375/m <sup>2</sup>	4.25% - 4.75%	\$3000 - \$3500/m <sup>2</sup>
Secondary	\$250 - \$275/m <sup>2</sup>	4.25% - 4.75%	\$2500 - \$3000/m <sup>2</sup>
Fringe	\$200 - \$225/m <sup>2</sup>	5.00%	\$1500 - \$2000/m <sup>2</sup>
Anderson Heights	\$175 - \$200/m <sup>2</sup>	6.00%	\$500 - \$800/m <sup>2</sup>
<b><u>Office (first floor)</u></b>			
Prime	\$220 - \$250/m <sup>2</sup>	4.25% - 4.75%	
Standard	\$200 - \$220/m <sup>2</sup>	4.5% - 5.0%	
Fringe	\$150 - \$200/m <sup>2</sup>	5.00%	
Anderson Heights	\$140 - \$180/m <sup>2</sup>	6.00%	

***Tourism Property***

Tourism is now regarded as the world’s fastest growing industry and in New Zealand international arrivals have doubled in volume since 1994 with annual growth forecast to be on average at 4.7% for the next five years. To quantify this in terms of New Zealand’s economy tourism is the single largest export sector and contributed \$7.4 billion to the economy in the 2004 year which is 18.5% of all exports. Approximately 10% of all employment in New Zealand is either directly or indirectly related to tourism which now represents some 9.4% of GDP.

In the Southern Lakes area the accommodation sector and associated businesses have enjoyed a buoyant market over the past 4-5 years, principally due to growth in the number of visitors to the area. There is confidence in the market which is evident by the new investment in infrastructure including additional visitor accommodation, servicing industries such as bars and restaurants along with growth in activities such as the new Basecamp Wanaka complex. Whilst the market is positive it is noted that there has been some tightening in conditions over the past 18 months with a number of operators reporting lower occupancy rates since the middle of 2005. This may however be in part due to the greater number of rooms available along with volatility in visitor numbers.

Within the Wanaka and Queenstown economies tourism plays a significant role by comparison to the older and now historic drivers of the economy such as farming. The area is patronised by independent tourists along with organised coach tours taking an established route which generally comprises leaving from Christchurch travelling to the West Coast, Wanaka and/or Queenstown and Southern Lakes area, back to Christchurch via the Mackenzie Country or vice versa. It is a seasonal market with the majority of tourists visiting from December to March and during the ski season from July to September.

Information from the Tourism Research Council NZ indicates that in the period 2006 – 2013 total visitor nights to the Wanaka area will increase from 1.33m to 1.53m which represents a rise of 15.6% or approximately 2.1% pa. The mix of visitor origin is in the vicinity of 50% international and 50% domestic, however the portion of overseas tourists is gradually increasing. Surveys indicate that 36% of visitors stay in hotel style accommodation, 35% motels and the balance of 29% in backpackers, hosted accommodation and camping grounds. Average visitor nights are 2.4 for international and 3.8 for domestic tourists.

The exposure Wanaka is receiving is increasing due largely to the marketing efforts of Wanaka Promotions and major local businesses such as Infinity Investment Group, as well as the ski fields - Treble Cone, Cardrona and Waiorau Snow Farm. Assisting this is the increased accessibility of Wanaka resulting from the sealing of the Crown Range Road and the commencement of a daily air service to Christchurch by Air New Zealand. Other high profile events such as the Festival of Colour and Warbirds have also contributed to development of the tourism market. In terms of sales it is noted that yields for visitor accommodation properties and businesses are low relative to other locations in New Zealand, principally as purchasers are willing to sacrifice some financial return for lifestyle factors. Strong capital gains have also contributed to a firming in yields for visitor accommodation property.