

WELLINGTON REGIONAL COUNCIL EQUALISATION
MARKET REPORT –
PERIOD 1 SEPTEMBER 1999 – 1 SEPTEMBER 2000

(A) GENERAL MARKET COMMENTS – NATIONAL PERSPECTIVE:

Residential:

The Wellington housing market continues to out-perform the rest of New Zealand but it is starting to show signs of weakening, according to the latest sales statistics.

The QV House Price Index for the three months to September 2000 shows national house prices dropped 1.5% compared with the same period last year. The main New Zealand urban areas dropped 1.8%. The urban figures were largely influenced by Auckland, which suffered a 3.1% drop since September 1999.

In contrast, Wellington City's house price index increased 3.5% during the same period. All cities in the Wellington region reported average sale prices above average Capital Values for the quarter.

There are signs however that this buoyant market has weakened and reached a plateau. This is evident by the figures for the September quarter which for the first time in several years recorded a 0.9% drop in prices.

Comparative figures during the year show Wellington and Kapiti Coast leading the way each with an average increase of 5.6% since September 1999, followed by Upper Hutt 3%, Porirua City 0.8% and Hutt City 0.3%.

The residential market was also buoyant in Wairarapa townships, particularly Martinborough, Greytown and Carterton.

The figures below show average house sale prices for the September quarter compared to the quarter ending September 1999.

	<u>Average House</u> <u>Sale Price</u> <u>Quarter September 1999</u>	<u>Average House</u> <u>Sale Price</u> <u>Quarter September 2000</u>
Kapiti Coast District	\$166,040	\$175,570
Porirua City	\$184,380	\$188,445
Hutt City	\$168,380	\$189,540
Upper Hutt City	\$150,100	\$162,050
Wellington City	\$256,830	\$279,000
Masterton District	\$ 98,380	\$ 89,300
Carterton District	\$ 83,760	\$ 91,300
South Wairarapa District	\$ 95,530	\$121,370

2. Commercial / Industrial

In the Wellington region, commercial property sales activity during the first half of 2000 was similar to the same period in 1999.

With the election now behind us, renewed interest was seen in the latter half of the year. Buoyed by falling interest rates and a more positive economic outlook, prices lifted during this period. Demand was particularly strong for investment properties under \$600,000. Owner/occupiers were also active in this section of the market.

The industrial sector tended to out perform retail and office premises.

3. Rural and Lifestyle:

The market for rural and lifestyle properties continues to show strong activity. Assisted by high milk payouts and stock prices, rural land prices have shown moderate increases since September 1999.

Strong demand was evident in the Wairarapa for land suited to viticulture and olives. In contrast due to poor market conditions, values of pip fruit orchards have continued to decline.

Evidence can be seen of strong demand for lifestyle properties through the greater Wellington and Wairarapa regions. Securing a retreat away from the hustle and bustle of city living has created significant buyer interest for lifestyle properties. Consequently values in this sector of the market have continued to increase during 2000.

(B) LOCALISED VALUE TRENDS

(1) WELLINGTON CITY

Residential:

During the last 12-months, the Wellington residential market has experienced a period of sustained growth, flattening out during the latter part of 2000.

For the six months ending December 2000, 1,020 house sales were recorded compared to 1,447 for the six months ending December 1999, a 30% decline.

During the same period the average net sale price increased from \$247,800 in 1999 to \$277,200 for 2000.

The results reflected continued strong buyer demand for properties in the eastern and southern suburbs of Wellington.

Above average increases of between 5% - 9% were seen in Island Bay, Brooklyn, Vogelstown, Roseneath, Oriental Bay, Kilbirnie, Rongotai, Strathmore, Miramar and Seatoun Heights. Sea views, sun and privacy were a highly sought after combination for homebuyers.

Strong demand was also evident for properties in the northern suburbs of Johnsonville, Newlands and Paparangi for lower priced properties under \$200,000.

Demand for properties in the lower value range was mirrored across the Wellington area whereby values at the lower end of the market, within each locality generally increased more than the upper value range.

In contrast to previous years, higher priced inner city areas generally experienced the lowest value movements. However, the very top end of the residential market for superior quality homes over \$700,000 experienced good demand and limited availability.

Commercial / Industrial:

CBD/Te Aro

There was a decrease in the volume of sales in the Central Business District during 2000.

While vacancy levels for office accommodation within the CBD have dropped to around 10.5%, office rental levels have remained relatively stable.

Leasings of retail space have shown slight increases on 1999 levels in some locations, including Featherston Street, Willis Street, Victoria Street and Cuba Street.

Overall the value of commercial and industrial property in the inner Centre Business District and Te Aro increased around 2-3% on average. Higher than average increases of up to 10% were evident for commercial/industrial property up to \$1 million.

In contrast small decreases were evident for values of higher valued CBD properties.

A highlight has been the continued re-vitalisation of the Te Aro area which has undergone significant rejuvenation and transformation. The key retail area of Courtenay Place, Blair Street and Allen Street through continued redevelopment, has cemented itself as the 'café/restaurant' centre of Wellington.

Previously rundown derelict buildings are now attracting premium prices. Particular interest is seen in character buildings that offer potential for apartments or 'character' office

conversion. Value increases on 'character' buildings have generally ranged between 10%-20% depending upon the degree of modernisation.

As part of this changing face, alternative higher paying users, including apartment developers are forcing traditional industrial operations out. This exodus of light industrial enterprises is to the more industrial oriented areas of Petone, Seaview and Ngauranga.

In contrast limited demand was seen for standard 1970's commercial office accommodation in the Te Aro precinct.

Overall vacancy levels for total office space in Te Aro lies at around 17%. The greatest concern centres on the 1960's and 1970's office space where securing new tenants for vacant space is proving very difficult. This is reflected in the sale prices being achieved and high yield rates, particularly where leases are close to expiry.

Tenants are showing a preference for character space, where exposed timber floors and brick walls provide an attractive marketing environment. Often these are leased as a bare shell. Examples can be seen at the northern end of Tory Street and in and around Allen Street. Investments in character space are showing good yields of around 10% or less with the continued conversion to apartments.

This injection of residential accommodation is stimulating an upgrade of retail premises, particularly along Cuba Street.

This demand has also seen healthy rentals being paid for residential rental accommodation.

Proximity to the CBD, universities and recreational facilities suggests that the Te Aro area will continue to evolve into a residential rental and service area with a lessening presence of traditional uses.

Suburban Commercial

Overall Capital Values for outlying commercial properties remained static or increased slightly since 1999. The capital growth prospects for secondary commercial areas are less attractive as some areas struggle to hold their catchment area in competition with the central commercial district.

A detailed rental survey and analysis of suburban commercial properties has shown that rental levels have remained static since 1999.

In some commercial areas, such as Johnsonville, an over supply of office accommodation was evident.

Strong demand was seen for boutique commercial/residential property. This mix offers a lower risk to investors than the more traditional retail/office developments.

Industrial

Overall the value of industrial properties have shown moderate increases since 1999. This reflected a good demand from small to medium investors together with low vacancy rates within this sector of the market.

The highest increases were seen for properties in Te Aro and Newtown/Berhampore. Little or no movement was experienced in the traditional fringe industrial areas of Grenada North, Kilbirnie and Rongotai.

The strongest demand and highest value increases were seen for properties under \$500,000. Limited value movement was seen for properties over \$1 million.

Rural

Limited sales activity was evident in the rural sector in 2000. Generally the value of farmland in and around Makara and Horokiwi is underpinned by demand for lifestyle properties.

- Overall the Capital Value of the Rural/Lifestyle sector, which also includes forestry and mining, increased around 5% on average.

This reflected a good demand, but limited stock for lifestyle properties close to the city. Vacant sites particularly around Horokiwi and Takapu Road continue to sell at premium levels. These areas benefit from close proximity to city services whilst also providing a country lifestyle.

Throughout the Makara District 'farms' continue to be subdivided in order to meet the ever-growing demand for lifestyle properties.

Conclusion:

The combined effect of these trends has produced a modest increase in the Net Equalised Value of Wellington City, by 5.1% from 1 September 1999 to 1 September 2000.

(2) HUTT CITY

Residential:

For the six-month period ending December 2000, 620 house sales were recorded, compared to 969 for the corresponding 1999 period – a volume decrease of 36.0%.

During the same period the average net sale price increased from \$175,500 in 1999 to \$191,300 for 2000.

There is variable movement dependent upon locality. The highest average increases of around 12% to 18% over 1998 rateable values were seen in Stokes Valley, Taita, Alicetown/Moera and Petone. In line with Wellington City values at the lower end of the market have increased more. Alicetown and Petone have been recognised by buyers as more affordable than Wellington City. These suburbs offer character homes handy to facilities within easy commuting distance to Wellington City. Hutt City house prices are

relatively low compared to those of Wellington City and will continue to attract people to the area.

Commercial / Industrial:

Vacant office space in Hutt City stands at 17% with most tending to be in buildings of lower quality. In the retail area, the proposed redevelopment of Westfield (formerly known as Queensgate) will further strengthen the centre's market share of the retail sector and will consolidate Hutt City's role as one of the main retail hubs in the Wellington region.

The industrial sectors of Seaview and Petone have seen reducing vacancy, coupled with a programme of enhancement by Hutt City Council around the Seaview and Gracefield Industrial area. The reduced vacancy has not yet flowed through to a marked increase in rental levels. Industrial sales for the 6 months to September 2000 show increases in value of 5% to 15% over 1998 rateable values.

Conclusion:

Overall the Net Equalised Value of Hutt City increased by 2.1% from 1999 to 2000. A significant proportion of the residential increase since 1998 was factored into the 1999 Net Equalised Capital Value.

(3) PORIRUA CITY

Residential

During the last twelve months, the property market has shown a significant decline in activity.

For the six months ending December 2000, 272 house sale were recorded, compared to 529 for the six months ending December 1999 – a 49% decrease.

During the same period however the average house price increased from \$177,000 in 1999 to \$202,500 in 2000.

- This reflected good demand for better quality homes in areas such as Whitby, Plimmerton, Pukerua Bay and Camborne.

Continued strong demand was also seen for residential investment properties in lower priced areas of Porirua East, Waitangirua, Elsdon, Ascot Park and Titahi Bay.

Commercial and Industrial

Similar to other centres within the Wellington region, values within the Commercial sector have shown small to moderate value increases since 1999.

Strongest demand was seen in the industrial sector particularly in main road localities such as Kenepuru Drive and close to The Mega Centre. Higher than average value increases are seen in these localities.

Due to declining rental levels commercial property values in and around Cobham Court have continued to fall.

Recent development of the Todd Park Industrial Estate previously owned by Mitsubishi Motors will have a flow on effect within this locality.

Rural Lifestyle

Rural and lifestyle properties have been keenly sought after. Blocks that offer good elevation and views are fetching premium prices. Examples of this can be seen in and around Pauatahanui Inlet.

Conclusion:

The combined effect of these trends produced a 5.3% increase in the Net Equalised Value since 1 September 1999.

(4) KAPITI

Residential

During 2000, the Kapiti Coast experienced a period of consolidation following a high degree of market activity during 1999. Similar to all other Wellington areas there was a decline in sales volume, with 363 house sales recorded for the six months ending December 2000 compared to 530 for the corresponding period in 1999 – a 32% decrease.

During the same period house prices remained relatively static at an average sale price of \$172,500 for the December 2000 half year compared to \$169,000 for the six months ending 1999.

Generally strongest demand was seen for lower priced properties up to \$200,000 and for properties with water views or beach influence.

Commercial / Industrial

Demand for well-located, good quality properties has resulted in moderate value growth for property in and around Coastlands and along Kapiti Road.

In contrast values in the fringe areas have remained static.

Rural Sector and Lifestyle

Within the lifestyle sector a number of 'niche' markets exist.

Strong demand has been evident in Otaihanga due to the high proportion of superior quality dwellings and close proximity to Paraparaumu.

Lifestyle blocks in Te Horo, Te Horo Beach, Peka Peka and areas close to Waikanae have also been selling well.

In contrast, less attractive lifestyle properties with limited outlook, limited development and poorer aspect have been selling at close to 1996 levels. Nikau Valley is an example of this.

Over time the number of economic rural properties has dwindled, as these larger blocks are subdivided into lifestyle blocks.

Conclusion:

The combined effect of these trends produced a 9.7 % increase in the Net Equalised Value since 1 September 1999. This above average increase can partly be attributed to a 4% increase in the number on new property assessments and building activity during the year.

(5) UPPER HUTT

Residential:

For the six months ending December 2000, 247 house sales were recorded compared to 373 sales for the six months ending December 1999 – a 33.8% volume decrease.

For the same period, the QV Price Index for Upper Hutt shows that house prices increased by 2.41%.

Agents report that many buyers are coming from out of town, as housing in Upper Hutt is more affordable and better value. Localities sought after are Upper Hutt Central, Pinehaven and Silverstream. The New Zealand Army has announced they will base their head office in Trentham. This is starting to have a positive flow on effect to the residential market as staff buy properties. There is still continued interest in new subdivisions opened at Riverstone, Waitoka Estate, Galveston Grove, and Slyvan Estate at Silverstream.

Commercial / Industrial:

The commercial sector remained fairly static. A decline in value of 5 to 10% for central Upper Hutt commercial properties is evident compared to assessed 1998 rateable values. Promall Shopping Centres has lodged an application for resource consent with the Upper

Hutt City Council to build a \$120m supermall at Silverstream. This has cast somewhat of a "cloud" over the central commercial area particularly for retailers. The appeal judgement for Promall is currently reserved.

The industrial sector is also fairly static. For properties listed with vacant possession and with little appeal for owner occupation, prospective buyers quite heavily discount these.

Rural:

The market for lifestyle properties is showing increases in sale prices over 1998 rateable values of 5 to 10%. Sought after localities include Mangaroa Valley and Whitemans Valley. New lifestyle sites are being created at the northern end of Upper Hutt and Mangaroa Valley to meet the demand.

Conclusion:

Overall the Net Equalised Value as at 1 September 2000 increased 5.1% from 1 September 1999 levels.

(6) WAIRARAPA

A) Wairarapa Townships

Since September 1997 the Wairarapa area has continued to show strong value growth. This can be partly attributed to the close proximity to Wellington and spin off from growth in the horticultural sector.

Premium prices continue to be paid for properties in the townships of Greytown and Martinborough.

Strong growth was also experienced in and around Carterton buoyed by development of land close to and within the township.

Residential values in Masterton township have shown small to moderate increases since September 1999.

Strong demand has continued for residential properties in coastal settlements of Castlepoint, Lake Ferry and Ngawai.

A low level of activity was seen in the commercial/industrial sector where generally values were held at 1999 levels.

B) Wairarapa Rural / Lifestyle:

Within the lifestyle sector the following trends were evident.

The lifestyle market has been very active since the last revision in 1997 and most obviously in the past twelve months. There have been a large number of subdivisions over the last year and this good supply has been matched with steady demand. Many buyers are from the Wellington/Hutt Valley area and are predominantly buying bare land for building on with a view of commuting to Wellington for work. Carterton has shown increased popularity particularly as similar land in the South Wairarapa District has become less affordable.

The strongest demand has been for lifestyle blocks located closest to Greytown, Martinborough and Carterton.

Vacant blocks within the town boundaries are sought after due to the availability of town water and sewerage systems and because the set up costs of servicing a block have increased. Alternatively, buyers are giving preference to sections that already have the services provided by the vendor to the gate.

Coastal properties are in high demand. As a result the value of these properties have increased more than non-coastal blocks.

Properties with older character homes were in good demand and relative to other lifestyle properties buyers were prepared to pay more for these types of properties.

Buyers are giving preference to serviced, well-located sites. Blocks with trees, native bush or streams running through them are finding strong demand.

Rural

Consistent with national trends overall values within this sector of the market have increased since 1999.

In general farmers have experienced a period of good growing conditions combined with increasing commodity returns, which has buoyed confidence in the agricultural sector. Agents, bankers, and consultants report increased confidence and expenditure occurring on repaying debt, applying fertiliser and replacing plant. The increase in confidence has seen the rural property market in the Wairarapa halt the decline in property values evident since 1997.

Around the date of valuation there are very few, if any, pastoral properties on the market within the district. Real estate agents report a shortage of listings and say they have several cash buyers in the market and good demand.

In terms of dairy land, despite recent significant changes to the structure of the Dairy industry local operators are positive about the future. With the prospect of the “mega merger” finished for the time being agents have reported increased interest in dairy farming properties. Production and scope would appear to be key factors for intending purchasers. There was evidence that dairy farmers in the district are expanding their units where possible and are prepared to pay a premium to obtain adjoining land. In several cases adjoining owners were prepared to pay the asking price with no negotiation taking place.

Horticulture

This sector of the market has experienced the most variable change over recent times.

The most evident trend has been the substantial increase in values for land suitable for viticulture of olives. Examples of this can be seen in Dakins Road, in and around Martinborough township and more recently along the Martinborough/Lake Ferry Road.

In contrast declining returns and high debt loading has contributed to closure of a number of orchards. Examples can be seen close to Greytown where orchards have been subdivided and sold as lifestyle blocks. This trend is similar to other parts of New Zealand, particularly Hawkes Bay and Nelson.

Forestry

There have been a small number of forestry block sales over the last twelve months.

Generally these indicate that confidence is returning to the forestry industry following the "Asian Crisis" of several years ago. Log and timber exports are increasing as our main markets rebuild. There have been no large-scale plantings recently within the district. Smaller blocks have been planted, mainly by small individual investors.

Generally forestry is selling close to 1997 trends.

Conclusion:

The net equalised capital values in the Wairarapa have shown increases since 1999 as follows:

Masterton	2.6%
Carterton	7.1%
South Wairarapa	15.9%

These figures reflect the buoyant nature of the market during the past year both in the townships and the rural sector.

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