



Murray Lauchlan

Murray Lauchlan specialises in investment property and also has in-depth knowledge of hotels, resthomes and leasehold properties.

## Uncertain Times

If one can be certain about anything in this property market, it is that no one is certain about anything, and there are many more unanswered questions than there are answerable ones.

Nelson has traditionally been regarded as a relatively stable market for commercial property investors. This is due to 1) the historic stability of the local economy with relatively good prospects for ongoing growth, 2) the lower volatility of the market compared with other commercial centres throughout New Zealand, and 3) reliable investment returns over long holding periods.

Key issues affecting the market at present are:

- Uncertainty caused by employment cuts throughout the region, with the prospect of increasing vacancies in retail, office and industrial properties.
- Downward pressure on rental levels as businesses amalgamate and tenants use their declining prosperity to bargain for nil increases at rent reviews, and fewer new businesses and tenants enter the leasing market.
- An increasing supply of old office stock, most of which would no longer meet the occupation standards and 'green building' requirements of government tenants.
- An increasing supply of commercial property for sale as institutions and other investors take action to increase their liquidity.
- Onerous planning requirements, building legislation and construction costs that deter developers from building new stock.

Clearly, the Nelson commercial property market is going through a period of change and uncertainty. The most likely outcomes of this are:

- Existing investors holding tightly onto good-quality investment property, with continued strong demand for blue chip property.
- A plethora of poor-quality commercial property coming onto the market for sale and for lease.

- Tenants relocating from substandard to more modern accommodation as existing leases expire, with an eventual 'two-tier' rental market emerging.
- Owners of older-quality buildings being forced to refurbish to compete with newer buildings.

In the commercial field we are regularly being asked several key questions, including "What are rental rates doing? What are yields doing, and is now the right time to buy?"

What are rental rates doing?

We have witnessed a long period of strong rental growth in all sectors of the commercial property market, and clearly rental levels have now stabilised. This would normally suggest for those tenants with rental reviews coming up that there would be one further catch-up rental review and then stable rental payments going forward. The business downturn has, however, hit so suddenly and hard that many landlords are already agreeing to forego rental reviews for the sake of maintaining cashflows, but also reflecting the closely shared partnership underlying a good landlord/tenant relationship.

We envisage there could be a fall-off in second-tier property rental levels driven by higher vacancy levels, while modern prime space should maintain current levels. Cost-driven rental growth (i.e. land plus improvements cost x development return) will become a rarity.

What are yields doing?

Steady strong demand for commercial property in Nelson has caused investment yields to consistently fall below the level predominantly being achieved in other regional centres and cities. As the full impact of the global downturn is now emerging in New Zealand, it presents the question, "Will Nelson be able to sustain investment yields below the returns now being sought elsewhere in New Zealand?"

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**Rhonda Muir**

Rhonda Muir specialises in commercial property valuations in Richmond and Nelson CBD.

With the significant decline in returns on equities and low interest rates on cash, more investors will consider putting their capital into property. Despite the Official Cash Rate (OCR) being at a ten-year low, there is evidence that investment yields are already increasing to reflect a higher perception of risk in the security of rental cashflows, greater allowances for older-quality building stock and a return to sensible margins for the illiquidity of property as an investment class over bonds and equities.

The chart below illustrates the level of return investors have been achieving on commercial property in the Nelson/Tasman Region over the past two years and indicates where we anticipate investment yields may head over the forthcoming year (i.e. 2009).

Investment yields on prime CBD property in Nelson held relatively steady in 2008 although the volume of sales was low in the Nelson/Tasman region. We believe yields for secondary quality and vacant fringe properties will continue to increase, with smaller but increasing levels of returns required for all other classes of CBD properties. With the increasing supply of

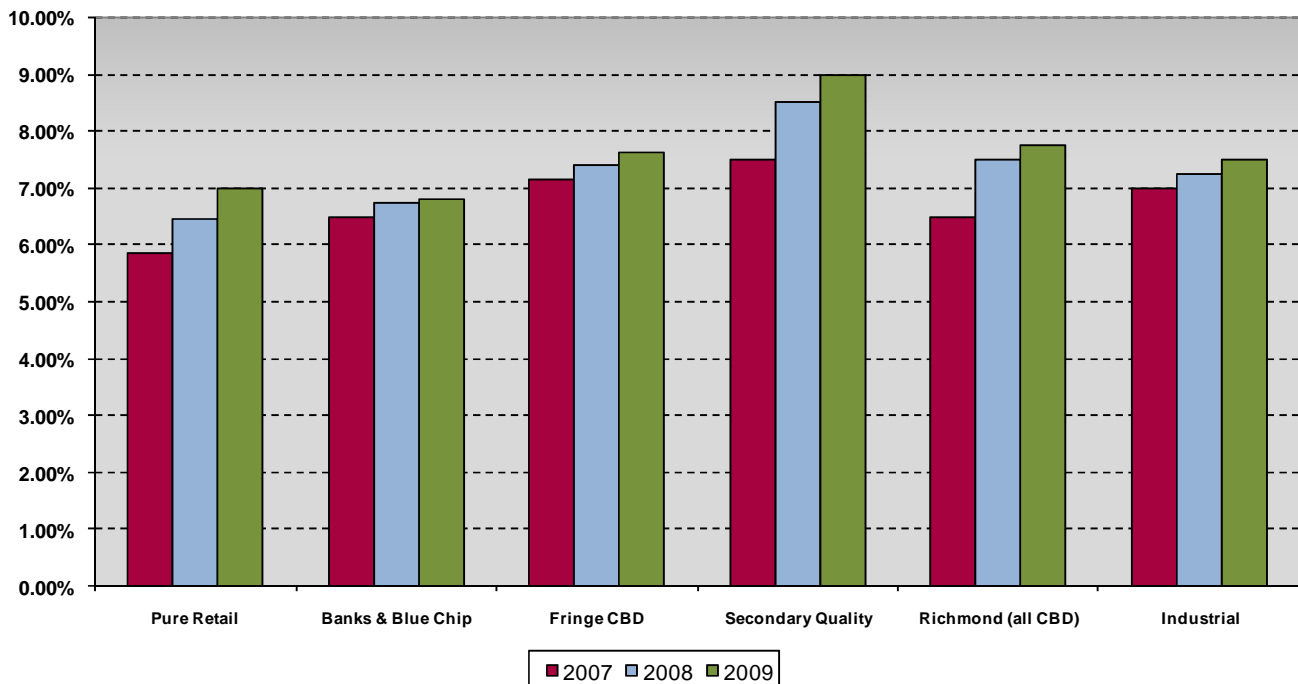
commercial property coming onto the New Zealand market at present and with buyers having a more national outlook, we believe yields in Nelson will have to follow the direction of investment returns for CBD properties elsewhere, and in some cases even match those yields, in order to attract buyers.

Is now the right time to buy?

Prudent purchasers with capital will be watching and waiting for the right time and property to buy. High-risk properties will be harder to sell, and hence yields for those properties are likely to increase further over the next year. In contrast, blue chip properties are likely to remain keenly sought after, and we perceive these properties will be the ones the discerning buyers will be chasing.

So yes, now is the right time to buy, but be careful about what you buy.

### INVESTMENT YIELDS



The above chart was collated from our analysis of the sales evidence available to us and, accordingly, may not reflect all sales which occurred over 2007-2008 in the areas indicated. Individual property yields will vary with many different factors.



Dick Bennison

Dick Bennison is a rural specialist in valuation, farm management and consultancy across the region.

# Rural Land Value Expectations

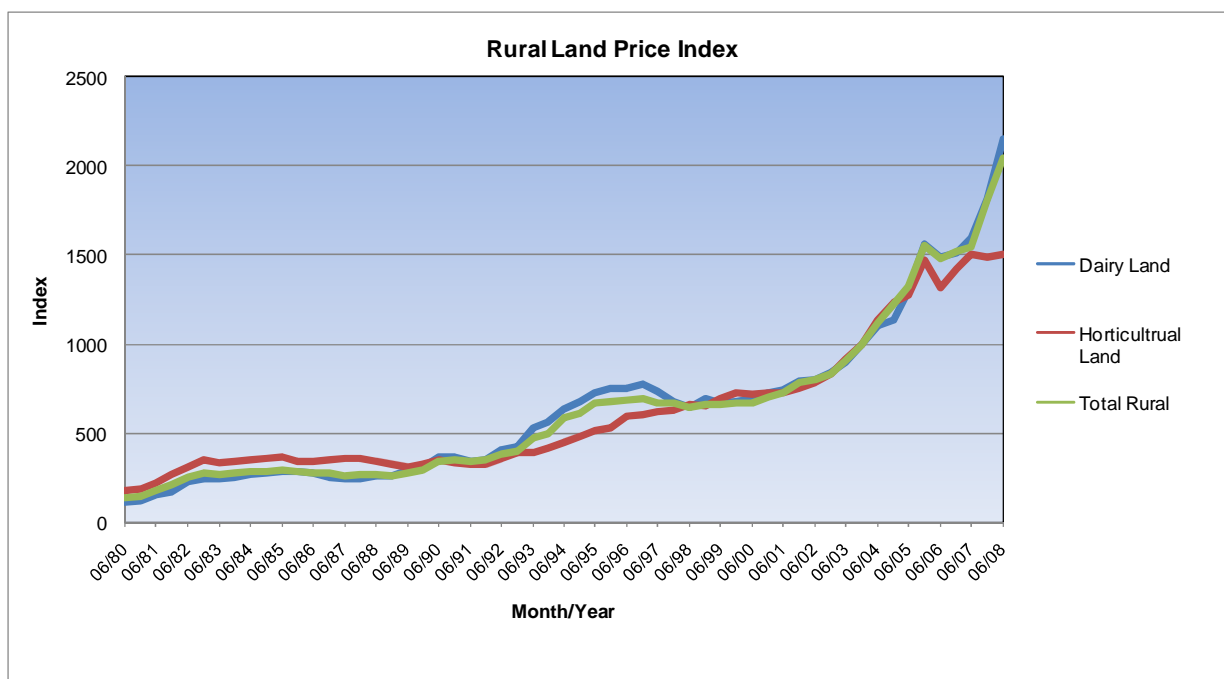
There seems little doubt that New Zealand's economy, and the world's economy in general are in the grips of a recession that some commentators are describing as the worst in a century. Others are more circumspect in their predictions, and only time will tell who is correct. What impact can we expect this recession or global economic crisis will have on the value of rural land over the next two to three years? Questions of this nature are always difficult to answer with any certainty; however, a review of history can be helpful along with considering the underlying drivers of rural land values.

Data produced by QV about the long-term index of rural land prices shows that rural land values have increased almost 15 times over the past 28 years from 137 in 1980 to 2045 in 2008. Dairy and grazing land as sub groups have increased 19 times while horticultural land has risen nearly 9 times as shown in the following graph.

The long-term trend has clearly been a steady increase in the rural land price index, with the only major drop in

combined values occurring in 1997/98. There have been other periods of minor falls in the index, but these have been followed very quickly by gains that have offset those brief falls. Two other features of note in this data are firstly the relatively long period of slow-to-moderate growth in the mid-1980s, which followed the Government's removal of support structures in the form of Supplementary Minimum Prices and other measures from the pastoral sector. Secondly, the period of slow recovery following the fall in values after the 1987 share market crash.

The real question now is whether the rapid growth in values over the past seven years or so is sustainable? The pure economic basis of value is the net present value of the future benefits or net income streams from an asset. So do the net income streams from farming the land support the values paid? The critical measure of returns is Economic Farm Surplus (EFS) which excludes interest, rents and personal expenses. Analysis of sheep and beef returns indicates that the EFS of sheep and beef farmers were barely above breakeven from 2002 to 2005 and has been below breakeven for the past three years. Dairy



EFS had been at, or just above, the breakeven level over that period until 2007 with a significant lift expected for 2008 due to the short-term rise in dairy payout.

Over the current financial year those positions could well be reversed with sheep and beef income rising and dairy falling. It therefore seems clear that the rapid rise in values over the past seven years has not been supported by the EFS. This analysis indicates that decisions made around the buying of land are based largely on factors other than the expected EFS that can be derived from the land in the immediate or foreseeable future. As they have in the past, farmers still tend to take very long views on the ownership of land and base their buying decisions on affordability rather than the expected returns from the land alone. In other words, they tend to accept either a very low return on their equity, or fund the shortfalls in purchasing additional land from income derived from other properties or sources. Ultimately, however, the price of land cannot continue to outstrip the returns derived from it, and that affordability will eventually be determined by net returns or EFS.

So where will the market go to from here? Dairy farm EFS will be down this year due to the rapid fall in the returns being paid for milk solids. However, this fall still needs to be kept in perspective. The average price paid to dairy farmers over the three-year period from 2004 to 2007 was \$4.28 per kg of milk solids, rising to \$7.43 in 2007, and is forecast to be \$5.10 this season. So EFS is still likely to be higher than it was two years ago despite increases in most other costs including fuel and fertiliser. Sheep and beef EFS are also likely to be higher due to stronger returns for lamb and beef.

It is unlikely that these improvements will be sufficient to sustain the rate of land value increase that has occurred over the past seven years. There have been clear signs over the past six months that rural land sales have slowed down. Recent data from BNZ shows that in February this

year there were only 75 rural sales nationally, 72% less than a year earlier. The median price of farm sales also dropped from \$1,350,000 to \$820,000 in January, down from \$1,505,000 a year ago. That change in median price is not necessarily a drop in value, rather a change in the nature of properties being sold, with fewer higher-priced properties selling.

It seems inevitable that the consequences of the current recession and global economic crisis will result in some correction of the rural land market. The impact of this should, however, be softened to a certain extent by falling interest rates and stronger returns from farm outputs. There are indications that dairy land values have dropped from the peak prices that were being paid last spring and that dairy support grazing and dairy conversions are not putting the same demand pressure on other grazing land. Providing returns remain at close to current levels and there are signs of dairy commodities improving, it is likely that the correction will follow past patterns of a modest drop off the peak followed by a period of minimal value growth.

The horticultural land index has shown a little more volatility than the pastoral indexes but has limited influence on the overall index. Those values are determined more by the returns in the various sectors. The fortunes of the wine industry over the next two years will have a strong bearing on that horticultural index. Within the Nelson market it is the returns from pipfruit that will have the greatest influence, and it is most likely those values will level out and follow a similar pattern to pastoral values unless there is a significant change in returns.

To conclude, there can be no doubt that the current economic environment is having and will continue to have an impact on the rural land price index; however, as long as New Zealand continues to produce agricultural commodities at a competitive advantage, and that trade in those commodities is not unduly restricted or interfered with, then farm incomes should remain positive and underpin the land market. There are buyers in the market looking for the right opportunity to purchase, but they remain cautious and not prepared to make hasty or ill-considered decisions. There seems little appetite to push values up. Vendors also continue to be careful and not prepared to see values fall, so the only activity that is likely in the short term is where there is a degree of compulsion on behalf of vendors. This has been the clear pattern in the past and all the indications so far are that the pattern will be repeated.





Barry Rowe

Barry Rowe specialises in smallholdings and residential properties

## Aged Care Facilities

**A**re you at the stage where you are considering living in a retirement village or have a parent who is investigating rest home care? Nelson has 17 aged care facilities providing over 1000 beds for a full range of care for retirement living. The different types of care may be separated into the following five main categories:

1. Independent Living – Ownership of an easily maintained home that provides one-, two- or three-bedroom accommodation. Prices for one-bedroom units range between \$135,000 to \$160,000, two bedrooms between \$180,000 to 280,000, and three bedrooms between \$250,000 to \$350,000. Upon vacating the unit, it is first offered for sale back to the retirement village, and a deferred maintenance fee of 15-20% is deducted. The maintenance fee covers the cost of reinstating the unit to the same standard as prior to purchase. The Licensee pays an average weekly service charge. This weekly service charge ranges between \$30 to \$60, or \$1,560 to \$3,120 a year. The service charge covers a reasonable share of the costs and charges relating to the site and unit that include local authority rates, water charges, comprehensive reinstatement insurance premiums on the unit, window cleaning, rubbish collection charges, external maintenance of the unit, interior redecorating, replacement of floor coverings, renewal of window furnishings, replacement of light fittings, maintenance of the lawns, grounds, drives and paths, power used for street lighting, administration costs, security, social worker, and any other reasonable costs or charges that

may arise as a result of the Licensee's use or enjoyment of the site and unit.

2. Assisted Living – A serviced apartment provides independence while enabling residents to take advantage of services on offer to suit their individual requirements such as housekeeping, maintenance, meals, cleaning and daily linen. Some of the larger villages provide equivalent rest home level care with qualified staff on hand 24 hours a day.
3. Rest Homes – Offer spacious rooms with private en suites and provide long-term care along with day care and short-term options.
4. Hospital – Nursing staff provide clinical care for residents. Weekly programmes of activities are provided that include entertainment and various outings.
5. Secure Care (dementia) – Professional nursing care for residents suffering dementia is provided.

Large, modern retirement villages provide resort-style facilities including indoor swimming pool, gymnasium, spa pool, badminton, croquet, golf, indoor bowls, lawn bowls, marching, petanque, pool, tennis and walking. Some provide an activities programme that includes a happy hour, barbeque, gardens, library, beauty and hair salons, bar, and complimentary morning and afternoon teas. Most also provide security patrol, transport to outings and nurses on call.

All aged care providers are members of a professional association, which offers confidence that minimum standards are maintained and the best quality care is provided.

Demand for retirement units has also slowed as potential purchasers have been unable to sell their own homes in the current market. We are aware that many operators of other retirement villages throughout the country are also experiencing difficulty in selling their units/apartments for similar reasons. In Nelson, there has also been an increase in the number of new units following the recent completion of new developments. The largest of these new



developments is Ernest Rutherford Retirement Village in Stoke. We understand demand for these units has been

good, although this has also slowed over recent months due to developments in the economy.

### ELDERLY CARE FACILITIES

Facility	Living Levels	Bed Total
Abbeyfield House 2 St Francis Way, Stoke	Independent	11
Ernest Rutherford Retirement Village 49 Covent Dr, Stoke	Independent / Assisted Living / Resthome / Hospital / Dementia	127
Gracefield Living 16 Sargeson St, Stoke	Independent	-
Green Gables Lifestyle Care & Village (Qualcare Holdings) 241 Bridge St, Nelson	Independent / Resthome / Hospital	63
Joan Whiting Rest Home 2321 SH 60, Collingwood	Resthome	17
Kensington Court Lifecare Main Rd, Stoke	Independent / Assisted Living / Resthome	90
Oakwoods Village & Care Facility 357 Lower Queen St, Richmond	Independent / Hospital/ Resthome / Dementia	186
Omaio Rest Home & Independent Living Units 188 Songer St, Stoke	Independent / Assisted Living	109
Otumarama Rest Home & Hospital 199 Nayland Rd, Stoke	Assisted Living / Resthome	-
Stillwater Gardens Retirement Village 60 Templemore Dr, Richmond	Independent / Assisted Living / Resthome / Dementia / Continuing Care	45
Tasman Park Rest Home 14 Browning Cr, Stoke	Resthome / Dementia	46
The Wood Retirement Village Ltd 156 Milton St, Nelson	Independent / Assisted Living/ Resthome / Dementia	119
Tui Glen Rest Home 23 Tui Glen Rd, Atawhai	Resthome	6
Wakefield Village Rest Home 10 Edward St, Wakefield	Resthome	20
Wensley House Rest Home & Studios 49 Wensley Rd, Richmond	Independent / Resthome	44
Whareama Rest Home & Hospital 81 Neale Ave, Stoke	Independent / Resthome / Hospital	81
Woodlands Rest Home & Hospital 6 Edgewood Cr, Motueka	Resthome / Hospital	63
TOTAL		1027



Shaun Poole  
Graduate Valuer

## A New Place to Call Home

The move to Nelson is the biggest one in my life so far. I was born in Taranaki, located on the West Coast of the North Island, and raised in a large family of four sisters and one brother on a dairy farm based in south Taranaki. We were encouraged to spend time on the farm together when growing up, which was always fun, and no doubt became handy for dad as we got older!

I attended Francis Douglas Memorial College in New Plymouth in 2000 as a Year Nine border. It was a huge change from four sisters to be living with over a hundred guys. I thought it was great! I got used to boarding school very fast and enjoyed making lifelong friends. The years seemed to fly by. I played, and was involved in, many different sports and activities at school; however, rugby was my favourite. In 2004, my final year of high school, my parents sold the farm and relocated north to Te Awamutu, a new farm and a new area. I continued boarding and was elected head border and a school prefect, and after achieving the grades and University Entrance, it was time for the next chapter in my life.



Unsure of whether to attend university, get an apprenticeship or job after leaving school, I decided to work on the dairy farm while I decided and save money for university should that go ahead. Farm life was second nature to me, so I knew what was in store. I worked the full year milking cows and enjoying the change from study at school to the practicality of farm life. While doing this, I realised I would enjoy a job in which office work and getting out and about would suit both my areas of interest. Property valuation was suggested, and after some research into the profession, it sounded like the perfect role.

I enrolled at Massey University and started studying a Bachelor of Business Studies majoring in Property Valuation and Management in 2006. The change from work on the farm to work in the books was one that had to be made quickly, and after settling in and knuckling down to study, I got right back into the swing of things. Massey University was another great period of my life where I came to know a wide range of people. I am very pleased I made the decision to go - again making lifelong friends.

After three years of study and completing my degree, it was time to move on and apply for jobs. I responded to an advertisement posted on the Massey University website for a graduate valuer at Duke & Cooke. The directors at Duke & Cooke arranged to interview me, and then I was soon packing up my belongings and preparing for my trip to Nelson, my new place to call home.

I have recently moved into a new flat and joined a local rugby club, so I am meeting loads of new people and loving sunny Nelson. I have been working for a few weeks and am really enjoying the job, learning a huge amount every day. I will be based with the residential valuation team for my first year, so I will be working alongside Barry Rowe asking a lot of questions! I look forward to meeting you.

## Duke & Cooke Golf Tournament

The fifth annual Duke & Cooke golf tournament was held on 1 March 2009. This tournament lends its support to the Tasman Golf Club for assistance with the continuing improvement of the Kina Cliffs golf course, home of the Tasman Golf Club Inc. One of our region's most picturesque golf courses, this beautiful facility commands a superb outlook over Tasman Bay with almost every fairway and tee having its own unique view.

Bragging rights were well earned and deserved for this year's Ambrose competition winners, West Yates, who also won the Peter Noonan Memorial Trophy for best gross score.

Thank you to all teams that entered, competed and enjoyed the after-match function with us.



Murray Lauchlan congratulates the West Yates team on winning both the annual trophy and the Peter Noonan Memorial Trophy for best gross score.

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