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

Deregulation of Primary Export Industries

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Is further deregulation of New Zealand's primary export industries in the best interest of producers and the wider national economy? This is a vexing question to which there is no simple answer. The debate has reared its head again with the pro-deregulators busy trying to talk the government into deregulation of the kiwifruit industry.

The protagonists in favour of deregulation argue that competition stimulates innovation and diversification, which leads to new opportunities that in turn expand the market to the benefit of the entire industry, and the economy as a whole. The contrary argument is that deregulation merely pits the various competing exporters against each other who are then picked off by the importers lowering the returns overall.

Philosophically, on a level playing field with a regular flow of accurate information, an open market without any controls should lead to the market finding a level of equilibrium whereby producers, consumers and everybody in between gets a fair and sustainable deal. Of course, the realities of international trade are far from that with various regulations, tariffs and oligopolies causing significant disruptions to natural market forces and behaviours.



The effects of a deregulated export market on a small primary export industry can be seen from the experience of the pipfruit industry. It is now some nine years since that industry was deregulated and ENZA, the trading arm of the New Zealand Apple and Pear Marketing Board, was opened up to competition. Immediately following deregulation there was some initial market growth. However, as the number of exporters rapidly expanded and the volume of the national crop also expanded at a time when there was an abundance of fruit from other sources, prices collapsed as the importers were able to play off the various exporters against each other.

The problem with most of New Zealand's primary exports such as fresh fruit is that they are basically commodities with little differentiation within the New Zealand crop and between competing crops from

other countries. The natural instinct for any exporter with an undifferentiated commodity is to target the most lucrative markets, which can quickly lead to oversupply and the resultant collapse of prices. That is principally what happened in the pipfruit industry.

The reality of the international fruit trade is that while there are a number of importers they all essentially supply the same large retail chains that are able to use their buying power to play off one importer against another, who in turn play off the various exporters. Following the melt down of 2005 the number of pipfruit exporters has reduced but growers have struggled to make the levels of returns that are required for the long sustainability of the industry, and only a small proportion of the retail price paid for the fruit by the consumer actually gets back to the producer.

When the returns from an industry remain at below long-term sustainable levels for a prolonged period, the level of reinvestment into that industry drops leading ultimately to reduced production, fewer jobs and less flow-on effect to the **wider economy**. **This hasn't occurred in the pipfruit industry** as yet, but there has certainly been a significant change in the composition of the production side of the industry with a large number of the traditional smaller family orchards having left the industry.

The only investment currently in the industry is from the larger orchard operations that have the scale and infrastructure to redevelop their orchards into newer varieties and upgrade post-harvest facilities to meet the requirements of the changing market. Only time will tell whether or not this has been to the long-term advantage of the growers, exporters and the wider economy.



The kiwifruit industry by contrast has flirted with partial deregulation in the past with a period of licensed exporters during the 1980s. That proved to be disastrous. Kiwifruit growers have enjoyed relative stability and viability only since Zespri, a wholly grower-owned exporter, took back control of exports into all markets other than Australia.

The kiwifruit industry is now a \$1 billion business with a well-managed and disciplined export programme delivering fruit of consistent quality to the world markets. The growers through Zespri have a very well-funded and powerful promotional programme and are price makers rather than price takers. Deregulating the industry will lead to the supermarket chains being the price makers at the expense of the growers. Zespri have worked hard over a long period of time to build an unenviable reputation in the lucrative Japanese market supplying fruit of a very high standard with continuity of supply. If that industry is deregulated, the Japanese market will become a primary target with competing exporters running the very real risk of being picked off by the supermarket chains. This could inevitably lead to a reduction of promotional activity, lowering of quality standards and reduced returns to growers.

Zespri have an active plant breeding programme, having developed and retained the plant variety rights to Zespri Gold. That variety is proving to be very successful, and there are other varieties that



show promise still under development. Those development programmes will come under pressure and be difficult to maintain if the returns from the fruit to the industry diminish. Zespri has shown the benefits of a strong, well-managed grower-owned structure that is the envy of most other primary producer groups in the country. Meat, wool and apple producers now wish that they were as well organised.

The international fruit market is extremely competitive. There will continue to be pressure both from the importers **and from those exporters that don't have access to kiwifruit** to open up the export of the fruit to competition. Understandably, there is little interest for this from growers or Zespri, and it would seem from experience that any such competition is unlikely to benefit either the growers or the wider economy in the long term.



Rhonda Muir

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

The 2009 Market in Review and Looking Ahead

INTRODUCTION

Farewell 2009. It would be difficult to recall such a sustained period of low-level activity in the commercial property market in the last 40 years. In previous “busts” the market has retrenched for maybe six months then activity has progressively picked up. However, the latest downturn is noteworthy for its duration, much the same as the “boom” preceding it was noteworthy for its longevity and high levels of rental and capital growth.

Some commentators suggested the bigger the “boom” the bigger the “bust” that would follow, and this now seems to be the case, although Nelson appears to be doing better than many other centres.

RETAIL SECTOR

Rentals

Retail rents in Nelson declined dramatically with all areas affected. The worse hit areas were, of course, the fringe retail locations with Trafalgar Street also being affected. In Hardy Street new market leasing results varied from nil increases to -5%, with the exception of one 5% increase. In Trafalgar Street there were also nil rent increases over previous rents, with new leases falling between approximately -4% to -18%. Bridge Street has been the area most affected with on-going shop vacancies and all new leaseings at levels of -2.5% to -26% from prior established rents for the same premises.

Many landlords decided to forgo rent reviews due in 2009. We are also aware that some landlords even provided rent relief in varying forms to assist tenants through times of difficult trading.

In Richmond the retail market appears to have had a much quieter experience. Although several retail shops along Queen Street became vacant throughout the year and were vacant for several months, these have now predominantly been leased with the exception of the former Content store towards the lower end of Queen Street. The rental levels achieved on these new leaseings appear to be at or around the levels established for the prior rents.

Sales

Sales in 2009 included Nelson’s prime retail arcade anchored by Farmers; the Lone Star restaurant and several smaller retail buildings (including the former First National building), which sold on a vacant-possession basis. Based on

the passing contract rents at the time of sale, net yields before management ranged from 7.4% to 8.26%.

Two vacant properties purchased by investors include the former Tasty Tucker building on Bridge Street and the former First National Building on Hardy Street, which have since been successfully leased by the purchasers. A small vacant building at 32 Bridge Street was purchased for owner occupation by Body Wise.

In Richmond, 221 Queen Street sold in July 2009 for \$1,700,000. The property comprises a single-storey retail building leased to two separate retail tenants on short-term leases. The indicated yield on passing rents is 6.24%; however, we have been informed that the sale was negotiated directly without agents, so the effective yield is understood to be 5.8%.

Retail land in Nelson would appear to have dipped in value by between 5.0% and 10.0% since hitting its peak in mid 2006. A lack of sales makes this market very difficult to define with only one recorded sale of a parcel of vacant leasehold land in the Nelson CBD since 2006. In contrast, a number of properties zoned Commercial have sold in Richmond since 2006. Those with retail potential include 17 Salisbury Road, which is being used as a car sales yard, and 321 Lower Queen Street, described under the New Developments (below).

The recent sale of 265 Queen Street, Richmond in May 2009 shows growth of almost 30% over the last sale of vacant retail also zoned Central Business; namely, the sale of 315 Queen Street in May 2006.

New Developments

- GJ Gardner Homes completed their new showroom/offices at 195 Queen Street, vacating their former premises at 199 Queen Street, which they leased to Retra Vision.
- A new retail convenience centre with a new-format McDonald’s restaurant and drive through. Total cost \$1,480,000.

OFFICE SECTOR

Rentals

The office rental market was quiet throughout 2009 with very little tenant demand. Rental levels remained relatively



Murray Lauchlan

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

firm as few rent reviews were undertaken by landlords. There were very few new market leasings and these showed little, if any, rental growth. However, a growing supply of secondary-quality office space available for sublease, particularly in fringe office locations, has put pressure on office rents. In August a tenant sub-leased first floor offices for a total cost (i.e. including operating costs) less than the net contract rent being paid by the head lessee who never moved in.



New retail convenience centre with McDonald's, Richmond

In an increasing trend towards owner occupation, Martin Hay has recently moved his business back into his own building in New Street, which was vacated when the tenant J A Levenbach purchased the 43 Halifax Street building. Refurbishment is another trend we are likely to see more of, with 22 Nile Street successfully being fully leased following refurbishment.

Office rents in Nelson now range from between \$140 pm² for older-style premises to \$190 pm² (gross including outgoings plus GST) on a bare-shell basis for a modern but standard design building.

We are not aware of any new market office leasings in Richmond during 2009. It is interesting to note, however, an increasing number of former retail premises in Lower Queen Street which are now being used for service commercial, such as the former Master Valet premises which is now First Class Accountants, and the former Thomas Fabrics, which has just recently been leased to Signature Homes.

Sales

The Nelson office sales market was relatively busy with some of the more notable transactions from 2009 that included:

- 47 Collingwood Street, Nelson – sold in December 2009 for \$4,825,000. A long-term, structured lease showing a net yield on passing income of 7.18%.
- 92 Collingwood Street, Nelson – a fringe inner-city property, sold in October 2009 for approximately \$490,000 for owner occupation at an indicated yield of 7.14%.

- 60 Rutherford Street, Nelson – sold in January 2009 for \$1,875,000 at a net yield of 7.62% based on an assessed current market rental.

New Developments

Since its completion in February 2009, the Daines building on the corner of Waimea Road and Hampden Street has become a Nelson landmark. This is a two-storey, 541 m² office building with basement parking and many environmental features. The ground floor is leased to Ray White Real Estate.

INDUSTRIAL SECTOR

Rentals

As anticipated, industrial rentals showed little movement throughout 2009, other than some situations where tenants in distress managed to successfully plead for rental reductions from their landlords. Prudent property management would suggest that in the market that existed such practices were a sensible risk management strategy, involving a partnership approach for the long-term benefit of both the property owner and occupier.

Little new market leasing evidence came to light over this period; however, it was quite obvious that an increasing supply of premises for lease was occurring in all areas. Agents reported little enquiry for space and so the market remained in a status-quo situation throughout the year. Rental reviews were commonly passed over with lease ratchet clauses preventing any argument for a market evidence-based rental reduction.

Sales

We refer the following table of analysed yields for industrial property. These yields have been split into ranges and also by the nature of occupation at the time of sale, whether sold with vacant possession or subject to lease (short term or long term).

Vacant property was not in favour with investors; however, there was a clear showing of interest from owner-occupiers who perhaps perceived this was a good market in which to buy. The bulk of investment sales were of property subject to lease terms with less than, say, five years to run before lease renewal. Depending on price range, quality of premises and location, yields ranged anywhere from 7.0% up to 9.5%, but most commonly within the 7.5% to 8.5% range. Two significant sales of long-term, securely leased industrial investment properties occurred, with quite divergent yields. The lower-yielding sale included a guaranteed rental growth component.

Industrial land would appear to have dipped in value by between 5.0% and 10.0% since hitting its peak in mid-2008. A real lack of sales makes this market very difficult to define

Yield Range	Vacant	Short Term	Long Term
6.00 to 6.49%	2		
6.50 to 6.99%			1
7.00 to 7.49%	1	2	
7.50 to 7.99%	2	2	
8.00 to 8.49%	2	3	1
8.50 to 8.99%			
9.00 to 9.49%		2	

with only two recorded vacant land sales since mid-2008 in Nelson/Richmond.

New Developments

Somewhat surprisingly, the level of new industrial development work has been quite high. Our article in Outlook, Issue 2, 2009 reported on this. To recap, however, new industrial development undertaken or commenced in 2009 included:

- A new building for CRT on the Network Tasman site on Main Road Hope, around \$2.3 million.
- A new building for Printhouse in Wakatu Industrial Estate, at \$1 million.
- Cityfitness in Stoke, at \$1.8 million.
- Contour Roofing building fronting Whakatu Drive, at \$4 million.
- A major 4800 m² hangar development for Air New Zealand at Nelson Airport, at \$12 million.



Contour Roofing building fronting Whakatu Drive, Nelson



Harvey Norman Store on St Vincent Street, Nelson

- The 7700 m² Harvey Norman Store on St Vincent Street, at \$15 million.

WHAT'S IN STORE IN 2010?

There is a general consensus that 2010 will largely be more of the same and that the pain and hardship is not yet over for many businesses. There will be both positive and negative economic signals that will continue to generate indecision amongst investors and property consultants.

It is highly likely the rental market in all sectors will see some real evidence of falling rental levels as those landlords with vacant premises react to the pressure of restoring cashflow from their properties. We are likely to see more refurbishment work being undertaken by landlords of secondary-quality space in order to make it competitive for leasing.

We believe a shortage of office space available for lease is developing in Richmond and the trend for fringe retail shops to be converted into service commercial uses may continue to fill this demand in the short term. This should have the effect of holding retail rents in Richmond steady, providing other economic factors remain the same.

Mortgage interest rates will probably rise again later in the year if the Reserve Bank increases the OCR as projected, and there will be some interesting pressures on property investment yields.

If building costs and investment yields don't fall (when have building costs ever fallen?), then the obvious outcome will be that land values will be under further downwards pressure in the coming year.

Overall, we predict the commercial property market will remain jittery throughout 2010 based on struggling business performance and on-going liquidations.

Take Your Best Shot!

Nelson and Tasman – expansive plains, voluptuous vineyards and great sweeps of beaches.

There are many reasons to celebrate our beautiful region, and this year we invite you to join us in appreciating the beauty and diversity around us by sharing your favourite photographs of our corner of the South Island.

The best shots will be published in the 2011 Duke & Cooke

Calendar. Here's your opportunity to have your own photographs published.

Winning entries will be exhibited at Rutherford Gallery at the end of November. Details will be in the next issue of *Outlook*.



Note

- Please request an entry form from calendar@valuersnelson.co.nz or pick one up at Rutherford Gallery
- Digital photographs in JPEG format must accompany the completed entry form
- Minimum JPEG file size is 2 MB
- This competition is open to amateur photographers only
- Entries close 31 August 2010

Staff Snippets

IAN WALLACE

We are delighted to announce that Ian Wallace has undertaken and passed the **Valuers' Registration Board examination** and has been admitted as a registered valuer. We extend hearty congratulations to Ian on his achievement.



Ian currently works in the commercial sector and also assists Barry Rowe in the residential sector. Before joining Duke & Cooke in 2007, Ian was a forest valuer and consultant for 25 years. Ian graduated from Massey University with a Diploma in Business Studies with a focus on land valuation.

Ian is the only registered valuer in New Zealand who is also a registered forestry consultant.

TRUDY BARNETT

Trudy Barnett left Duke & Cooke in early February for a much-anticipated OE. Trudy has headed off to Portugal to start her adventure. After Portugal, who knows?

SHAUN POOLE

Moving over to assist Dick Bennison in the rural sector is our newest graduate, Shaun Poole. Shaun has spent his first year at Duke & Cooke assisting Barry Rowe in the residential sector. Shaun is no stranger to rural life having been raised on a dairy farm based in south Taranaki.





Barry Rowe

Barry Rowe specialises in smallholdings and residential properties

Nelson City's Solar Saver Scheme

Nelson City Council's Solar Saver Scheme is now up and running with those homeowners who have made the change loving it. Recent publicity, however, has not all been complimentary. So what is the Solar Saver Scheme?

Nelson City Council supports and encourages the use of solar hot water heating. This innovative scheme gives residents the chance to install a solar hot water system now and pay back the installation cost as part of their rates over ten years or earlier if they wish. Each installation also attracts a \$1,000 subsidy from central government through the Energy Efficiency and Conservation Authority (EECA), making it even more affordable.

GOALS OF THE PROGRAMME

The overall goal is to increase the uptake of solar hot water systems in the Nelson City Council area. To support this goal, the Council objectives are to:

- Use the targeted rate process to reduce the upfront cost for homeowners
- Reduce the per-unit cost
- Ensure high-quality systems are available to homeowners that perform well and save homeowners money
- Simplify the selection and installation process for homeowners from start to finish with low administration costs
- Provide excellent service to homeowners
- Provide homeowners with a choice of systems and suppliers

Council has shown its commitment to making it easier for people to choose solar power by waiving building consent fees with a zero fee policy and streamlining the building consent application process to install a solar hot water heating system. This initiative is expected to give the solar industry in Nelson a huge boost, with the intention of making it the solar centre of New Zealand. Most installers will



handle the consent process, applying for and obtaining the building consent and arranging for the necessary inspections to be carried out.

BENEFITS TO THE COMMUNITY

Increasing the use of solar hot water systems is expected to have considerable benefits to the wider community.

- Shift spending locally - not only do the installations bring money to the local economy (including \$500,000 each year in EECA subsidies) but there will be an estimated \$500,000 saved on power bills each year that will result in more money being spent locally rather than going to power companies.
- Build community resilience - the Nelson community can become less vulnerable to security of power supply and increasing prices.
- Show Nelson as an innovative leader - taking action to reduce greenhouse gas emissions and encouraging clean green renewable energy.
- Use our natural resources - Nelson is known for its sunshine hours (sunniest place in New Zealand) and solar systems harness this huge, free resource.

HOW TO BE PART OF SOLAR SAVER

The Solar Saver Scheme allows homeowners to choose the system they like from one of the four suppliers and have it installed. The installation cost is met by Council, and residents pay the cost back to Council, including interest at 7.8%, as a targeted rate on their property over ten years. If the house is sold during that time, the rate remains with the property, not the owner. An early repayment option is available anytime after the first year and could be part of the property settlement process. Homeowners taking up the scheme may choose to contact as many of the four selected suppliers as they wish to discuss prices and the systems that will best suit their needs.

Initial Ballot Results

There was such a high level of interest in the Solar Saver Scheme during 2009 that Council had to hold a ballot to choose the first 200 households that could opt to take up a solar hot water installation before July 2010. The next

round of Council-funded installations will see 500 funded from 1 July 2010 through 30 June 2011. Homeowners may register their interest and change their mind later as they are not committed to participating until a purchase agreement has been signed. Anyone wishing to join the waiting list may contact the council.

WHO CAN PARTICIPATE IN THE SCHEME?

The Solar Saver Scheme is available to Nelson homeowners initially as the Council sees them as the priority for providing the finance to take away the upfront cost. The Council will also investigate extending the financing of installations to businesses in the future if there is sufficient funding available. Solar hot water heating systems are cost effective and homeowners have to weigh the benefits for their individual circumstances. The average pay back (excluding interest payments) is around eight years with most ranging between six to ten years. Many testimonials are available and may be read on the Energy Efficiency and Conservation Authority or Nelson City Council's websites.

SolarCity, one of the four Council suppliers, says, *"The value of your solar hot water system derives from the amount of electricity or gas it saves. To ensure your system is optimised, every SolarCity hot water system comes standard with our SolarTrak service. The SolarTrak technology platform enables SolarCity to continuously monitor the key performance variables of your system and transmit this data to SolarCity's servers through the internet. This allows us to optimise the performance of your solar hot water system and maximise the cash savings it delivers to you. It also protects your investment and tracks the savings it delivers.*

"All the transmitted data will be accessible online for you to view yourselves and you can display your system's performance on a public website or your own web page if you desire."

Alisdair Daines of Daines Architects in Nelson says, *"The installation and support for the solar performance tracking*

has been first class. The software is easy to use and provides valuable information to ensure the whole system is running at maximum efficiency. I wouldn't consider installing a solar panel system without proper monitoring."

The Council with its partners will also provide the advantages of the scheme (e.g. reduced prices) to people who don't want to use Council's finance because they have other finance available or they reside in the Tasman District Council area and can't pay back through the Nelson rates system. Nelson City Council's goal is to increase the number of installations regardless of whether it's providing finance or not. Homeowners may still access the competitive prices Council has negotiated by contacting its four suppliers and going ahead with installing solar hot water on their own. Homeowners with cash or who find a better finance arrangement are free to do so.

For some further information see:

<http://www.smarterhomes.org.nz/energy/solar-water-heating/>

<http://www.eeca.govt.nz/>

We acknowledge the use of this information from Nelson City Council.



**REGISTERED VALUERS,
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