

PROPERTY INSTITUTE

PINZ – GISBORNE BRANCH BRANCH CHAIR ANNUAL REPORT 2020

Welcome to the Gisborne Branch 2020 Annual General Meeting. I hope everyone is adapting to the new 'normal' as best they can, given the impact of the Covid-19 pandemic. Firstly, a quick look at my best interpretation of the global and national economic outlook and the Gisborne economy, along with each segment of our market. Thank you to the specialists in the commercial and rural space providing their insights into the current and short-term situation.

Global and national economic outlook

The Covid-19 pandemic is revealing an unprecedented global health and economic crisis. Activity restrictions worldwide have halted the global economy. The full impact is uncertain with some economists suggesting it could be worse than the Global Financial Crisis (GFC). Unemployment has spiked and firms are under pressure. Global trade has plummeted. Central banks, governments, and policymakers are taking steps to cushion the blow implementing a range of measures to support markets.

In New Zealand we have moved from Alert Level 4 Lockdown to control the spread of the virus and reduce the number of new daily cases to Alert Level 3 and now 2. Businesses are now reopening with new protocols/measures in place. Our primary goods exports appear to be holding up with the outbreak now more contained.

The Reserve Bank of New Zealand (RBNZ) has implemented measures to support the financial system. The Official Cash Rate (OCR) is now at 0.25% down from 1.0% in March and is expected to remain so for one year. Mortgage rates continue to fall, now at all-time lows, within the 3% to 4% range. Recent specials are now below 3%.

Gross Domestic Product (GDP) is predicted to have a sharp decline post Alert Level 4 Lockdown and our recovery is contingent on whether the outbreak is contained and the duration of the activity restrictions. At this stage, some economists expect unemployment to reach 11% which is currently recorded at 4.0%, and GDP to fall 8-10% over the remainder of 2020.

The Government's wage subsidy is temporarily 'bridging' some of the impact for approximately 40% of the workforce. If the virus is contained, Trans-Tasman travel may reopen which would see economic benefits. In the short term, export demand is expected to soften.

House prices are expected to drop 10-15% with demand under pressure and tightening credit. Regions reliant on Tourism, have been hit the hardest. Households and banks will be cautious. The RBNZ has lifted the Loan-to-Value Ratio (LVR) restrictions to facilitate new lending which may see a short-term spike in credit. Inflation is expected to be tracking well below the 1-3% target range. Commercial property linked to business activity could be more affected than residential, with anecdotes around rent reductions.

During Alert Level 4 Lockdown house sales stalled with real estate not considered essential service. Anecdotal evidence suggests there could be increased demand from kiwis abroad looking to return home. It is expected that fewer sales will occur until more certainty is in place and the economy starts to recover.

The government has banned residential rent increases. Rents may continue to track down where tenants negotiate what they are able to pay. Once new tenancy agreements are drawn up, downward pressure may remain. Yields typically fall when interest rates do, though house prices generally fall further and faster than rents. However, during the GFC rents increased initially to hedge the risk and uncertainty which is not possible due to the current ban. Also, during the 2008/09 GFC house prices initially fell 10%.

Gisborne population and economy

Gisborne is one of the sunniest places in New Zealand, comprising 8,355 square kilometres located on the east cape of New Zealand's North Island. New Zealand Regions, as at June 2018, state the population at 49,100 (Statistics New Zealand Subnational Population Estimates).

In addition, Gisborne economic statistics (averages) include:

- Household income - \$82,800
- House value - \$359,021
- Weekly rent - \$330

Our natural attractions include an extensive coastline of sandy beaches with renowned surfing breaks to natural bush and farmland. The city offers a range of homes and living options to match the choices available elsewhere. Choices range from city houses with great views, comfortable suburban homes with large attractive gardens, small farms and lifestyle blocks to large pastoral farms and forestry blocks. Gisborne is considered 'affordable' in contrast to other regions, where any home is never too far from the beach.

From 2013–18, Gisborne's economy increased by 27.5% (the national increase was 30.9%), and its share of national GDP remained unchanged at 0.7%. GDP per capita is \$41,178 versus nationally at \$58,271. The 2013-18 increase was driven by agriculture, fishing, forestry and horticulture; commercial and residential rental increases, increased employment and real estate price increases.

Business Central June 2019 state that the unemployment rate is 4.7% for the year ending 2018, slightly higher than the national unemployment rate at 4.3%. Retail trade increased by 5.8% from January to September 2017 to the same period in 2018. Currently, there is approximately a 12 to 24-month delay for building labour and construction of new homes.

There have been examples of companies relocating to Gisborne due to lower overheads and living costs. In addition, several land sales on the Gisborne flats have been to Bay of Plenty orchardists and investment companies for kiwifruit and apple development. These activities have increased the demand both for skilled labour and housing.

Vacant land in Gisborne

Following the Global Financial Crisis (GFC) late 2007 to early 2008 an oversupply of vacant land was evident between 2012 to 2014. This created downward pressure on land values, with vendors and developers accepting lower prices to meet market expectations. Sales volumes for vacant residential sections, including city, coastal and several surrounding townships and the east coast, were generally 30 to 40 per year between 2008 and 2014. The market started to increase late 2015 which saw volumes increase to 85 and slightly less in 2018 to 75. With most of the vacant land now absorbed, sales reduced in 2019 to 51.

In relation to medians, the market appeared to 'bottom out' between 2012 to 2015 with median sale prices ranging from \$90,000 to \$110,000 in the city. In 2019, the market is approximately 50% to 60% above this level with medians currently in the \$170,000 to \$180,000 range.

The typical spread of sale prices and medians in 2019 include:

- Ruatoria \$10,000 to \$15,000
- Te Karaka \$20,000 to \$40,000
- Tolaga Bay \$50,000 to \$90,000
- Kaiti \$70,000 to \$160,000
- Elgin \$90,000 to \$140,000
- Outer Kaiti/Tamarau \$90,000 to \$180,000
- Te Hapara (State House location) \$80,000 to \$130,000
- Te Hapara, Awapuni and Central Gisborne (more sought-after locations) \$160,000 to \$220,000
- Mangapapa and Riverdale \$140,000 to \$220,000
- Whataupoko \$200,000 to \$310,000
- Modern subdivisions (Riverdale, Lytton West and Sponge Bay) \$200,000 to \$280,000
- Wainui/Okitu (more coastal) \$350,000 to \$500,000
- Elevated blocks with coastal and/or rural outlook \$280,000 to \$510,000
- Premium coastal blocks (inland and beachside) \$500,000 to \$800,000
- Beachfront well over \$1,000,000

In relation to lifestyle blocks, sales volumes are low, making it hard to establish a precise trend. At present there is strong demand for one-hectare (10,000m²) lifestyle blocks, with the growing demand for half hectares (5,000m²) in good locations. Elevated lifestyle blocks generally take longer to sell, unless they have good building platforms, city and coastal outlook and relatively easy contour overall. Blocks which require extensive site works take longer to sell, though with limited supply and steady demand, these blocks are starting to transact.

At present, sales for the smaller half-hectare lifestyle blocks are typically in the \$240,000 to \$300,000 range in the more favourable locations, with good contour and aspect. One-hectare blocks are above this range in the \$280,000 to \$380,000 range. Elevated blocks with rural and coastal outlook are generally in the \$290,000 to \$550,000 range.

In addition, due to the restricted supply and strong demand, infilling subdivisions are starting to occur and attract buyers to smaller sections. However, caution exists with fear of over capitalisation when factoring in build costs or relocating a dwelling.

'Greenfield land' with development potential is limited, with large blocks considered inadequate due to the increasingly high costs of development and unknown geotechnical requirements.

We conclude that the demand is strong, with limited supply, with the outlook similar in the short term.

Residential and lifestyle markets in Gisborne

The lifestyle market in Gisborne follows similar trends to the residential market.

Post the Global Financial Crisis (GFC) of late 2007, early 2008 sales volumes and prices declined, bottoming out in 2013 with an increase late 2015.

Real Estate Institute of New Zealand (REINZ) statistics for the Gisborne market include, although are not limited to the following:

- Median sale price for **2019** at **\$382,000**, versus **\$326,000** in **2018 (+17%)**
- Values are now **64%** above the market in **2015**
- It takes on average **36** days to sell a property in **2019** versus **45** pre **2015**
- Sales volumes of improved properties at the peak pre GFC were **50 to 60** per month. We are now back to this level

2019 saw strong demand, with limited supply, driving values in an upward direction. General sentiment is that the market is strong, with the key drivers including affordability in contrast to main centres, employment opportunities and population growth.

In terms of surrounding townships, such as Matawai, Whatatutu, Te Karaka and Muriwai, a small number of transactions make it difficult to assess a precise trend. However, demand has increased due to their general affordability.

In relation to the general residential and lifestyle markets in Gisborne, recent sales recorded on REINZ and our expert interpretation of the market show the bulk of the demand is in the **\$200,000 to \$350,000** range, with many purchasers now utilising their KiwiSaver for a deposit. First home buyers make up the bulk of this range, combined with a limited number of investors. Trading up and second/third home buyers make up the **\$400,000 to \$600,000** bracket and transact readily. Properties which are well presented, with no overdue maintenance considered 'turn-key' attract premiums at auction. Above the **\$600,000** range buyers tend to complete longer due diligence and don't seem to be able to act promptly, due to a combination of factors including their capital position, selling a home or relocation issues. There are fewer buyers above **\$700,000** due to affordability in relation to incomes.

Well presented character homes in the more sought-after suburbs, including Whataupoko are now selling over **\$600,000**. Modern homes in good subdivisions with higher specifications are now selling in the **\$500,000 to \$1,000,000** range.

Executive properties, including riverfront are now in the **\$800,000 to \$1,100,000** range where elevated blocks obtaining good outlook (rural and coastal), beachside and beachfront are now well over **\$1,000,000**.

Due to Covid-19 we have recently moved from Alert Level 4 Lockdown to Alert Level 3 and now 2. The property market effectively stalled over Level 4, with only a limited number of transactions occurring. Some buyers had completed their due diligence pre-Level 4. Our analysis of these sales show no impact on values. However, due to such a small number of data, this is unlikely to provide a fair representation of just where the market is 'sitting'. Our key indicators moving forward will be the residual buyers and sellers prior to the shock, lifting of LVR's, tightening of credit, wage subsidy 12-week expiry, mortgage holidays come to an end, which local businesses survive and the unemployment rate.

While we have insufficient evidence at this time to determine an accurate trend, we have placed more weighting on the most recent sales evidence which includes pre and post alert restrictions, Level 4, 3 and now 2.

We conclude that well presented 'turn-key' properties are still sought after, and the general market is now **17%** above **2018** and **64%** above values in **2015**. However, in the short term, the market is likely to react with some caution and the full impact of Covid-19 is yet to be realised.

Residential investment market in Gisborne

Due to a combination of historically low-interest rates, strong yields and “affordability” in the Gisborne region, compared with main centres, the investment market has remained steady. As of 30 April 2020, the Reserve Bank has removed Loan to value Restrictions (LVRs) in response to the Covid-19 pandemic as a tool to soften the impact and/or stimulate demand.

There remains a shortage of properties for rent on the market, which includes properties with multiple dwellings/units, with two or more income streams. The main driver is a housing shortage, with strong demand for tenancies, in turn increasing market rental levels. This is dependent on size, location and overall quality and presentation of the accommodation. However, many landlords have chosen not to assess their contract rent in relation to the market, which may have a negative impact on market rents in the medium term and could see a softening of rents and yields, due to this imbalance.

Gross yields from 2012 to 2015 generally ranged from 8% to 12% with net yields ranging from 4% to 6%, with relatively soft rental growth from 2013 to 2016, translating to capital gains. However, 2017 sales evidence indicated a slightly wider range of gross yields from 4% to 12% and net yields from 4% to 7%. The yield curve tends to follow interest rates and has been steadily tracking in a downward direction, with the gross yields generally in the high 4% to 8% range, with the most recent in the high 6% to early 7% range. On a net basis, sales have been in the sub 3% range, with the bulk in the 3% to 4% range. Most of the lower yields see opportunities to increase the market rent with capital expenditure.

Well located and presented properties usually offer a lower net yield, although with less risk, versus a higher yield in less appealing suburbs with more risks. Capital gains are generally less pronounced in the higher yield and risk locations.

Government speculation around Capital Gains Tax (CGT) earlier this year, changes to policy in relation to insulation and ventilation requirements and Covid-19 may temper demand.

Commercial market

The Government has identified the Tairāwhiti region as a priority for early investment and support through the Provincial Growth Fund. There are significant opportunities to improve and support the region - particularly for local industry and improving the resilience of infrastructure.

Through the Provincial Growth Fund, the Government is investing heavily in the future of the Tairāwhiti region. Gisborne is in a good position compared to other regions within New Zealand because we have a very small tourist market, due to Gisborne's isolation generally any business travellers need to stay the night, forestry is one of Gisborne's main industries and this is currently strong along with horticulture and pastoral farming. Although the retail sector continues to find things challenging, with several businesses closing. This is a result of changing retail habits along with the impact of COVID-19 and optimism in our economy, coupled with low-interest rates. The industrial sector remains strong.

Rural market

Carried on throughout Covid-19 alert level restrictions. Business as usual. Holding steady across all sectors.

Branch Overview

The Gisborne branch remains one of the smallest of the PINZ branches which consists of 14 active members. Due to the small scale of the branch, the management committee consists of all members as follows:

Che Whitaker	Kay Maw	Pat Butler
Ben Inder	Michael Donovan	John Bowen
Bruce Cowper	Rebecca Johnston	Hayden Green
Peter Wright	Carolyn Blair	Anna Lovett
Adrian Viljoen	James Jenkin	

In 2015 Che Whitaker was elected as Chair. In 2018 and 2019 Ben Inder was elected as treasurer and Rebecca Johnston as event's organiser.

Events in the 2019 year included the AGM at BNZ Business Partners on Customhouse Street, where Patrick O'Reilly, NZIV gave an overview of PINZ and NZIV's direction moving into 2019. The focus is more on members, rather than profile and brand awareness.

In addition, our most recent event was a field trip to Eastland Port to see their operations. Hayden Green and James Jenkin provided a good overview of the port and how the port plays a vital role in the Gisborne economy.

Financials

The Gisborne Branch remains in a good financial position. In June 2014, our local branch bank account was transferred to head office to administer only. We still have full control of the funds.

Profit and Loss Property Institute of NZ Gisborne 1 January 2019 to 31 December 2019	
Income	
Interest Income	376.55
Gross Profit	\$376.55
Less Operating Expenses	
Branch Other Expenses	\$626.39
Total Operating Expenses	\$626.39
Net Profit	-\$249.84
Other Assets	
GST Refund	\$ 93.96
Transactions Account	\$ 10,789.08
Total Assets as at 31/12/2019	\$ 10,883.04

Seminar Income/Expenses Transactions Property Institute of NZ Gisborne From 1 Jan 2019 to 31 Dec 2019					
Date	Type	Transaction	Reference	Debit	Credit
1/01/2019	OB	Opening Balance			\$11,038.92
31/01/2019	INT	Interest			\$31.98
28/02/2019	INT	Interest			\$28.89
31/03/2019	INT	Interest			\$ 31.98
30/04/2019	INT	Interest			\$ 30.95
6/05/2019	INV	Che Whitaker - AGM Branch Expenses		\$ 217.39	
15/05/2019	INV	Carolyn-Anne Blair - Refund for travel & Accomodation		\$ 297.70	
31/05/2019	INT	Interest			\$ 31.98
30/06/2019	INT	Interest			\$ 30.95
31/07/2019	INT	Interest			\$ 31.98
31/08/2019	INT	Interest			\$ 31.98
30/09/2019	INT	Interest			\$ 30.95
31/10/2019	INT	Interest			\$ 31.98
30/11/2019	INT	Interest			\$ 30.95
3/12/2019	INV	Rebecca Johnston - Gisborne Branch Expenses - refund		\$ 111.30	
6/12/2019	INV	Rebecca Johnston - Gisborne Branch Expenses - refund		\$ 111.30	
9/12/2019	PAY	Refund of Gisborne Branch - PROPERTY INVALID ACC			\$ 111.30
31/12/2019	INT	Interest			\$ 31.98
Total				\$737.69	\$11,526.77
31/12/2019		Balance			\$10,789.08

Membership

- Rebecca Johnston – MPINZ/MNZIV and Registration
- Carolyn Blair – recently advanced to MPINZ. Registration
- Kay Maw – advancement due to ANZIV and SPINZ
- Che Whitaker – advancement due to ANZIV and SPINZ
- Ben Inder – advancement to ANZIV and SPINZ

Chair's Note

The Property Institute organised audio conferences for the branch chairs throughout NZ during 2019 to keep each branch updated on current issues. I was unable to attend the face to face meeting in Wellington. In addition, as a result of Covid-19 we have had several Zoom meetings.

A summary from head office:

- The Board of the Property Institute of New Zealand has reluctantly decided to cancel this year's National Property Conference, scheduled in Auckland on July 8, 9 and 10
- Valuers Act Review – A submission was lodged by PINZ to Land Information NZ in 2014. This process is on going

I'd like to thank all who have contributed to the Branch during 2019 and wish you all well for the remainder of 2020.



Che Whitaker
Branch Chair – PINZ/NZIV Gisborne