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Queenstown Property Update - May 2020

QUEENSTOWN
KEY DRIVERS

Tourism
Growth

Population
Growth

Commercial
Construction Activity

Economic
Growth

Infrastructure
Development

Low
Interest
Rates

INTRODUCTION

CURRENT "PROPERTY MARKET CORRECTION"

The following outlines our thoughts on the future impact (property market correction) that the Covid 19 event may have on our Queenstown Lakes area.

At this stage it is too early to properly quantify the impact. We can however draw some indication from other historic property correction events and make some preliminary assumptions.

The following provides some background economic data and forecast into the various property sectors.

BACKGROUND DATA

Colliers Otago Market Information

- 2019 2.9 million Queenstown Visitors, 33% domestic, 67% international, $2.34b

Westpac Economic Bulletin 8 Apirl 2020 (New Zealand Arrivals)

- Zero International Visitor Arrivals (IVA) until September 2020
- 1m international arrivals in 2020 from a projected 3.9m pre Covid 19 (75% reduction)
- Visitor arrivals in 2021 projected at 2.29m

Statistics NZ

- 1992 Visitor Arrivals 1,055,681
- 2004 Visitor Arrivals 2,334,153

Queenstown Chamber of Commerce April Survey

- 75% of Chamber members expected us to return to pre covid 19 visitor numbers within 48 months

Queenstown Market Information

3604 existing hotel rooms
676 under construction
2,466 rooms consented
1,400 rooms at consent stage
Projected growth
3,604 – 4,280 rooms

Construction Consents
2019 $620m, 451m residential, $169m non residential
2009 $120m
2006 $197m, $118m residential, $79m non residential
1996 $48m

Residential Sales Volume:

Market Peaks:
1986 (631)
1994 (811)
2003 (1039)
2016 (1115)

Market Lows:
1988 (398)
1998 (423)
2008 (533)

FORECAST RESIDENTIAL

- Sections

  Softening in prices but held up by low supply

- Managed Apartments

  Limited income through until September/October, this sector will look to move to longer term rentals in the short to medium term, expect a correction in pricing for properties that sell

- Residential Investment

  Significant softening in rents with initial evidence showing 20-25% adjustment during lockdown, increase in conversion of long term rental supply from circa 2000 air b&b properties. Will likely see significant vacancies in the short to medium term as migrant workers return home and unemployment escalates.

- Given that a large percentage of housing is owned by absentee investors for either holiday or income from rentals, we would expect to see some sell pressure from those under financial pressure.

- Owner / Occupier

  Expect this to hold up in the short term, bank mortgage holidays and government wage subsidies will assist. In the medium term unemployment will put some pressure on this sector for those needing to leave sell. The upper end of the market will be more resilient, with those owners not as sensitive to employment issues.

- Home and Income

  Risk associated with properties relying on rental income to service mortgages, particularly where there is a high debt / equity ratio.

FORECAST COMMERCIAL

- Challenging conditions for hospitality and retail tenancies with trading conditions over the next 12 months, a significant amount of rent default or abatement occurring, this could potentially result in downward pressure on rents and potentially vacancies in the short term

- Expect Queenstown CBD to be worst affected due to the higher proportion of tourist spend in the CBD compared with Frankton and reliance on 70-80% of the trade from international visitors. A counter to this being the nil vacancy rate in the CBD and expected return to normal conditions in the medium - longer term.

- QLDC / Transit proposed Queenstown CBD bypass and major upgrade of CBD streetscapes to be fast tracked to commence within the next 12 months

FORECAST INDUSTRIAL & BUSINESS

- Likely to be the most resilient sector of the market, pre Covid 19 very limited vacancy and effectively nil supply of industrial land available.

- Some vacancies expected from those businesses directly involved in the support of the tourism sector, i.e car rentals, wholesale suppliers to visitor accommodation.

FORECAST TOURISM

- The majority of hotels have closed, circa 3600 rooms, many not likely to reopen this winter unless the ski operators can open and domestic flights to Queenstown resume.
- Lessees of Motels and Managed Apartment complexes are particularly vulnerable, with limited income through until the Australian market returns and less spread of location risk that bigger hotel operators have.
- Bank funding will be very difficult for this sector, particularly for new developments.
- Expect most of the developments under construction to complete and those that haven't yet to commence to be put on hold for the medium term, which will assist as tourism returns to normal.
- As hotels and motels commence operations again expect to see heavily discounted room rates for some time.
- A lot of downsizing of existing businesses to survival levels in absence of any real tourism until late 2020, early 2021.
- Significant increase in hotel room supply in the 3/6 months prior to Covid, effects on the market not yet absorbed.

FORECAST CONSTRUCTION & DEVELOPMENTS

- Expect to see a significant correction in underlying land values as bank funding dries up for any developments and existing property values soften.
- Proposed apartment developments will struggle to have any development margin as demand for completed product falls below replacement cost and sales volumes reduce significantly.
- Expect most land subdivisions, commercial and apartment developments to be put on hold for the medium term as demand and bank funding is constrained.
- A large volume of development underway and about to commence will hold up the construction industry for the next 24 months, after which we are likely to see a significant contraction in construction activity into Central Otago and a loss of crucial skilled staff as they seek work elsewhere.
- Some risk for lower margin firms i.e. franchises/home build companies, and smaller builders/sub trades who have started in the last 5 years.
- Bigger construction firms - some realignment as margins also low, but correction likely to be more related to sub contractor non payments.
- Infrastructure projects will be key in assisting with stabilising the local economy and will help reduce unemployment.

SUMMARY

- The willingness of Banks to lend to new business and property acquisitions will be crucial to how the property market comes through this correction.
- Unlike last market correction in 2007/8, the Banks are in good financial health, backed by the government's quantitative easing programme.
- A benefit of this is that most of the property lending is held with the main retail banks, unlike the GFC where there were a large number of finance companies that collapsed and caused many forced sales of developments.
- The ability to open the boarder with Australia in the 3rd or 4th quarter of 2020 will be a significant boost, The Australian News stated that there were 10 million Australians who travelled overseas in 2019, spending $65 billion.
- Potentially this correction may be tougher than the GFC in the short term but we expect the recovery to be quicker for Central Otago as the tourist numbers return to pre Covid 19 levels.

Thank you from the team at Colliers

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