



TRUSS & KEYS
VALUERS LIMITED

**PROPERTY
INSTITUTE™**

PROPERTY MARKET REPORT

TAUPO: OCTOBER 2011



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The views and opinions contained within this report are those of the writer (Alex Keys) and do not necessarily represent those of Truss & Keys Valuers Limited.

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EXECUTIVE SUMMARY

The Taupo residential property market continues to operate in a subdued fashion. Sales activity has been patchy, however anecdotal evidence would suggest September / October has seen an increase in activity.

New dwellings consented fell during the previous 12 months by 13.7%. Since 2007 the annual number of new dwellings constructed within the district has fallen by 55%.

Commercial property has remained reasonably resilient over recent times with yields for key transactions being generally at similar levels seen throughout the last few years. Sales of properties located within the Town Centre with good tenants on long-term leases are well sought.

Currently the Taupo Town Centre has three vacant shops within the Core Retail Area, local letting agents report a reasonable level of inquiry. This level of vacancy is down from previous months where the Town Centre had five empty shops.

Demand for Industrial properties has slowed in line with the general slowing of many industrial markets nationally. Currently there is little demand from owner occupiers, a difficult rental market, with investors becoming more discerning, seeking better quality buildings and more secure tenants, leaving a quality gap in the market. Quality buildings with good long term tenants are reasonably sought after, however older Industrial buildings with marginal tenants have generally seen values fall with there being currently few buyers.

Property development sentiment has continued to be subdued throughout 2011 with Taupo being no exception. Very few new developments of significance have been undertaken with more of a "clearing" of existing stock and "distressed" property again being a feature of 2011.

The Taupo District Council's Commercial and Industrial Structure Plan initial submission phase has now closed. This Plan suggests amendments to existing rules and zones in the Taupo Town Centre, Residential and Industrial Environments. Those interested in Taupo property should make themselves aware of these proposed Plan changes and how these may affect their property interests in the future.

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TAUPO DISTRICT KEY STATISTICS

The Taupo District is located in the centre of the North Island, with the Taupo township located to the northern end of Lake Taupo being the largest inland lake in New Zealand with an area of 600 square kilometres.

Key Taupo District facts include:

- Population: 34,100
- Population increase since 2006 census: est 600 or 1.8%
- 19,164 households
- Median house price \$340,000 (August 2011)
- Annual economic growth currently 2.7%
- Employment: 16,376
- Unemployment: 939 (March Quarter)
- Unemployment Rate: 5.3%



COMMERCIAL SECTOR

The Commercial investment market has remained reasonably resilient over recent times with yields for key transactions of Developed Commercial property being generally at levels seen throughout the last few years (5.5% - 8.5%). The market for developed properties located within the Town Centre remains reasonably strong, particularly for those with good tenants on long-term leases located within good quality buildings.

Key transactions:

185 Spa Road

- Sold in March 2011 for \$2.0M
- 1 km from the Town Centre
- Previously occupied by Taupo Mitsubishi
- 3671 m² site.
- Original building was in area some 620m²
- Re-developed to 898m²
- Tenant: RD1, a Rural supplies retailer.



Suncourt Shopping Centre

- Sold in July 2010 for \$5.5M
- Northern side of the Town Centre.
- 2997m² site
- Ground floor retail shops and first floor office accommodation.
- Currently undergoing some redevelopment with new retail space being developed.



27 Horomatangi Street

- Sold in December 2008 for \$2.695M
- Tenant: Westpac Bank
- Passing rent: \$130,500
- 4.84% return
- 544m² lettable area



42 Ruapehu Street

- Sold in May 2009 for \$6.5M.
- Passing rent \$496,600
- 7.64% return
- Tenants include ANZ Bank, Kiwibank, NZ Post and Pumpkin Patch.
- First floor has mixed smaller office tenancies.



101 Tauhara Road

- Sold in November 2009 for \$2.4M
- Sale and Leaseback
- Tenant: Farmlands
- 869m² building
- Passing rent \$152,000
- 6.33% return



COMMERCIAL RENT LEVELS

- Town Centre retail space generally ranges from \$280 to \$450 per m²
- Fringe Town Centre retail rates generally range from \$180 to \$300 per m²
- Locations around the Restaurants and Bars range from \$220 to \$450 per m²
- Light industrial / retail on the fringe of the Town Centre generally ranges from \$120 to \$240 per m²
- First floor office space generally ranges from \$90 to \$180 per m²

COMMERCIAL VACANCIES

- Currently the Taupo Town Centre has three vacant shops within the Core Retail Area, local letting agents report a reasonable level of inquiry. This level of vacancy is down from previous months where the Town Centre had five empty shops.
- Premises are available on the fringes of the Town Centre, however the Taupo Retail Sector would still be described as being "resilient" during the recent economic downturn.

INDUSTRIAL SECTOR

The Industrial investment market saw strong activity during the period 2003 to 2007 with yields in general terms between 6% and 9% in line with national trends. This was brought about by a combination of a desire for owner occupation and investor demand for both developed properties and vacant sites, of which there had been few offered to the market, this was combined with relatively low interest rates.

Most recently (2008 – 2011) demand has slowed in line with the general slowing of many industrial markets nationally. Currently there is little demand from owner occupiers, a very difficult rental market, with investors becoming more discerning, seeking better quality buildings and more secure tenants, leaving a quality gap in the market. Quality buildings with good long term tenants are reasonably sought after however, generally older Industrial buildings with poor tenants have seen values fall with there being currently few buyers.

INDUSTRIAL RENT LEVEL

The majority of Industrial space falls within the range of \$55 to \$90 per m² for warehouse or workshop type space and \$70 to \$120 per m² for office space within an Industrial building. Additional rental may be attributable to additional yard space.

INDUSTRIAL VACANCIES

Available industrial buildings are experiencing long vacancy periods with some buildings having now been empty or partly let for many months. The rental market has been difficult since 2008, with this situation unlikely to change until general business activity improves.

Many of the older buildings now require upgrading to compete with more modern construction types. Factors such as heating, street appeal, future maintenance and modern office facilities are becoming more important to tenants.

Key sales are as follows:

87–95 Claret Ash Drive

- Sold in February 2011 for \$525,000
- Three contiguous Industrial zoned sites
- Ashwood Park Industrial development
- \$135 per m²



86 Miro Street

- Sold in October 2010 for \$2.3M
- 1.4 hectare site
- Located in the main industrial locality
- Building area approx. 2,400m²
- 8.91% return
- Formerly occupied by a transport operator.



7 Fleet Street

- Sold in April 2009 for \$1.7M
- 8.82% return based upon the lease back offer.
- Building area 1089m²
- 2976m² site
- Taupo Industrial locality.



DEVELOPMENT SECTOR

Property development sentiment throughout New Zealand has continued to be subdued throughout 2011 with Taupo being no exception. Very few new developments have been undertaken within the general area, with more of a “clearing” of existing stock and “distressed” property again being a feature of 2011. A lack of confidence in the property market is affecting the majority of market segments in contrast to the optimism that had been generally enjoyed over the more recent “property boom”.

Developers are adopting a watching stance on the market and are likely to be much more cautious when selecting projects in the near future. Currently the Taupo urban area has a good supply of vacant land for residential and industrial purposes however, sales of these have been much lower than historical norms. Of note also through 2009, 2010 and again in 2011 is the low number of apartment sales, with many of these having been receivership sales, mortgagee sales or distressed sales by overcommitted owners.

Overall we see the remainder of 2011 and well into 2012 being another challenging year for the property market. We believe that price consolidation will continue in the near term with continued downward price pressure driven from very cautious purchasers.

Obviously property is affected by general market conditions, but to a large degree and particularly for development land, it is a function of finance, and if funding is difficult to gain or is expensive, a large sector of the market is removed and demand falls to a position where there is very little in the way of market activity. It is our observation that much of the block land and completed or near completed development projects currently for sale, is as a result of owners faced with liquidity issues, unable to source alternative finance. Furthermore, many of the sales occurring are forced by a mortgagee in possession. Given these circumstances, it is not unusual for development land sales and values, to be significantly below those prevailing pre-2007.

Most development land purchasers at present are discerning, price sensitive “bargain hunters” and many have taken a position that if they are to purchase development land at the present time, the price would have to be very competitive and one which reflects a purchase and hold position rather than purchasing for development immediately.

Key Block Sales are as follows:

- A future development block in area some 3.7350 hectares, sold in September 2011 for \$760,000 having frontage to Wharewaka Road at Four Mile Bay.
- A large development, site in area some 78.6059 hectares sold in March 2009 for \$11,200,000. This site would suit residential development in stages over an extended period of time.
- 18 Broadlands Road sold in October 2008 for \$3,100,000 being an area of 4.3750 hectares of Rural zoned land, having frontage to both Broadlands Road and Miro Street. This is in close proximity to the main Industrial locality and the recently completed East Taupo Arterial highway.

RECENT DEVELOPMENTS

Suncourt Shopping Centre

- 19 Tamamutu Street
- New retail shops
- On completion this will also enclose part of the existing Suncourt Shopping Centre.
- Development on ex-carpark area



12 Paora Hapi Street

- Two new first floor tenants
- One first floor tenancy still available
- Ground floor is fully let
- 997m² site.



68 Ruapehu Street

- Single level development
- 453m² site
- Town Centre



95 Heu Heu Street

- New building completed
- Ground floor retail
- First floor office accommodation
- Basement carparking
- Fully tenanted



94 Heu Heu Street (Caltex)

- Currently undergoing re-development

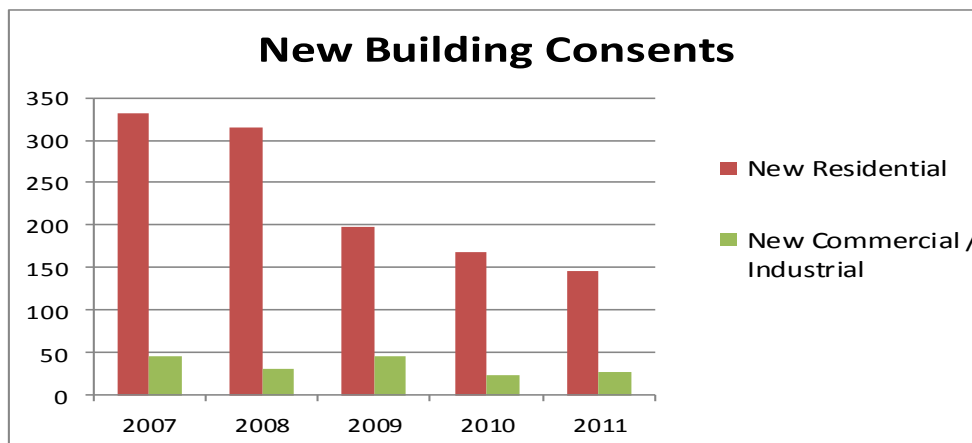


RESOURCE CONSENT APPLICATIONS

- An application for Resource Consent has been lodged to subdivide the land surrounding the existing Huka Falls Resort located on Huka Falls Road into 95 Residential Lots. The application provides for a higher density residential development.
- The premises in Roberts Street previously occupied by the Pizza Hut Restaurant has been demolished, with the development of a new restaurant proposed for the site.
- Resource Consent has been applied for by McDonalds Restaurant for the development of a McDonalds Restaurant at 23 Broadlands Road being located within close proximity of the East Taupo Arterial highway. This application is currently being considered by the Taupo District Council.
- A Resource Consent Application has been approved by the Taupo District Council for the development of 24 accommodation units on a site located at 142 Lake Terrace. This site is adjacent to the existing Sails Motel located opposite Taupo's main swimming beach with an outlook across Lake Terrace to Lake Taupo. This application also provides for the unit entitlement of the units.

NEW BUILDING ACTIVITY

New dwellings to receive Building Consent within Taupo District on a year ended March basis are as follows:



Category	2007	2008	2009	2010	2011
New Residential	332	314	198	169	146
New Commercial / Industrial	45	30	45	23	28

The number of new dwellings consented fell during the previous 12 months by 13.7%. Since 2007 the number of new dwellings constructed within the district has fallen by 55%.

RESIDENTIAL SECTOR

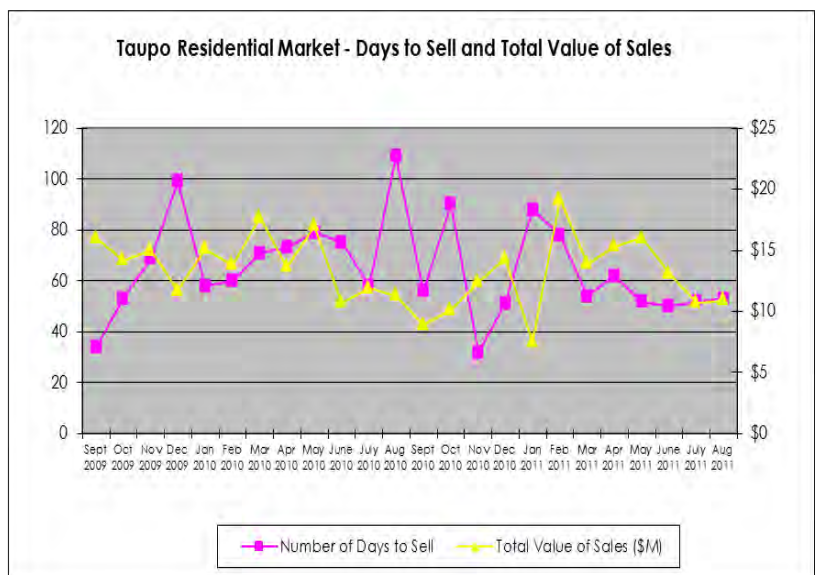
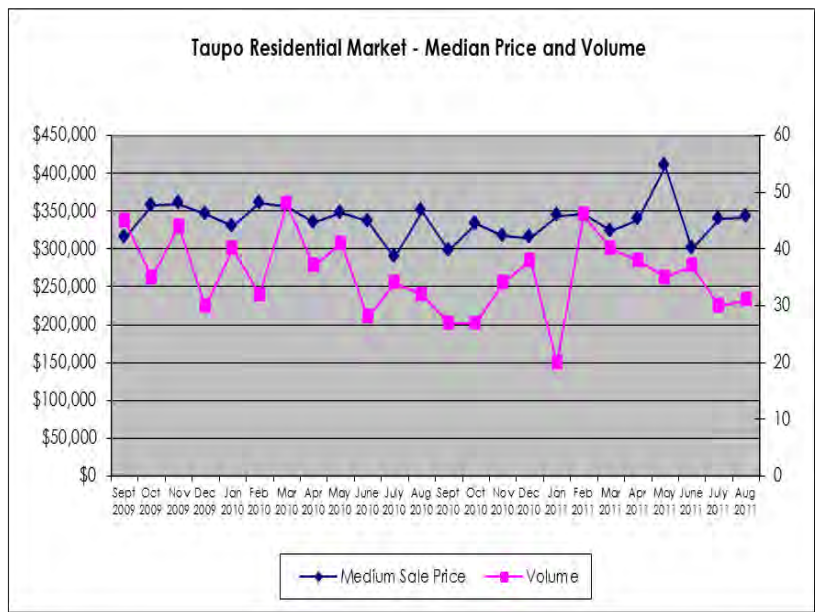
The Taupo residential property market continues to operate in a subdued fashion. Sales activity has been patchy, however anecdotal evidence would suggest September has seen an increase in activity.

Taupo residential market saw strong growth through 2003 to 2006. However, from 2007 to 2011 Taupo has been experiencing downward price pressure, sales volumes in particular through this period have declined significantly, and now range between 20 and 60 sales per month.

During this time issues within the credit and finance markets combined with failures of both finance and property companies, and concerns relating to unemployment have resulted in purchasers losing confidence in the property market. The market is more slanted in the purchaser's favour, with vendors having to be realistic with their price expectations.

We are yet to see investors returning to the market in any significant numbers.

With average sales volume still relatively low in historical terms at least, we would expect prices for developed property to remain under price pressure in the short to medium term. However, in saying this, Taupo is still seen as an attractive destination to live permanently and to own an investment property or holiday home.

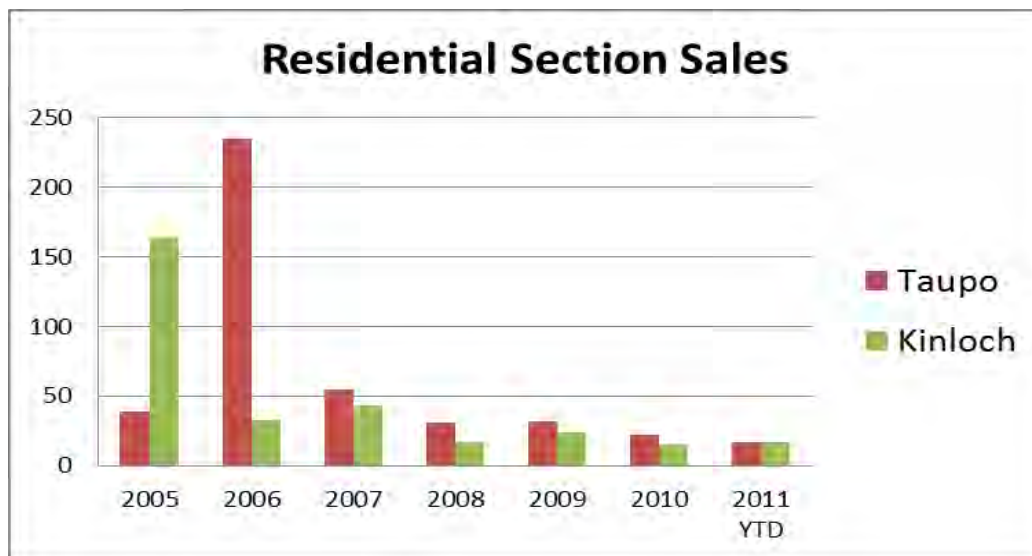


Please note: The above graphs have been prepared from information gained from REINZ. These show averages across a wide range of sale prices and property types, and cannot be taken or used as an indication of any property's value. They provide a general trend only.

VACANT RESIDENTIAL SECTIONS

Taupo currently has a good supply of vacant residential sections available for purchase with many of the subdivisions developed through the height of the property market still having sections available for purchase directly from the developers or secondary sales from the initial purchasers.

Statistics available from REINZ suggest the following volume of sales:



	2005	2006	2007	2008	2009	2010	2011 YTD
Taupo	39	235	55	31	32	22	17
Kinloch	164	33	43	17	24	15	17

In general terms we have seen values for Residential sections fall by 15% – 30% with further declines experienced in some cases. At current levels, Taupo still has several years supply remaining with new subdivisions now either in the planning or early stages of construction. These new subdivisions will place additional pressure upon the section market.

APARTMENT SECTOR

The apartment market in Taupo remains difficult with patchy sales in this category. Many of the sales reported within this sector have been for either "forced" sales or within complexes under pressure to sell for various reasons. We had seen values drop across this market during 2010 with no signs of any recovery as yet.

Some of the more relevant sales are as follows:

Sacred Waters Apartments

Unit 15

- Sold May 2010
- \$539,000
- 104m²

Unit 17

- Sold May 2010
- \$550,000
- 107m²



Waimahana Apartments

Unit 4

- Sold May 2011
- \$715,000
- 175m²

Unit 11

- Sold August 2011
- \$800,000
- 150m²



110 Lake Terrace

Unit 1

- Sold February 2010
- \$1,050,000.
- 192m²

Unit 9

- Sold January 2010
- \$1,220,000
- 192m²



ACCOMMODATION SECTOR

Motel accommodation in Taupo has changed over the past few years. New motels have been constructed to meet many travellers' expectations for modern accommodation while a number of older motels have been converted into managed apartment type complexes.

Statistics New Zealand reports the number of motel style accommodation available in Taupo and the surrounding area has increased from 69 in 2004 to 72 in 2011, with the daily capacity increasing from 1,111 guests to 1,227 guests over the same period.

Visitor arrival numbers into the Taupo District and staying in Commercial Visitor Accommodation show Domestic traveller numbers being relatively flat and International travellers being down on previous years. This may have changed when visitors associated with the Rugby World Cup are included in future statistics. The occupancy rate for Motel type accommodation to the year end July 2011 is 47.4% down 3.1% on the previous 12 month period, and also down on the 2008 and 2009 period.

These figures include only those staying in commercial and private accommodation and do not include an unknown number who frequently stay in holiday accommodation, timeshare or visit the region on day trips. The market has year round seasonality with peaks during the school holidays and at weekends with regards to domestic accommodation while with regards to the international market having a summer and early autumn peak (January to March).

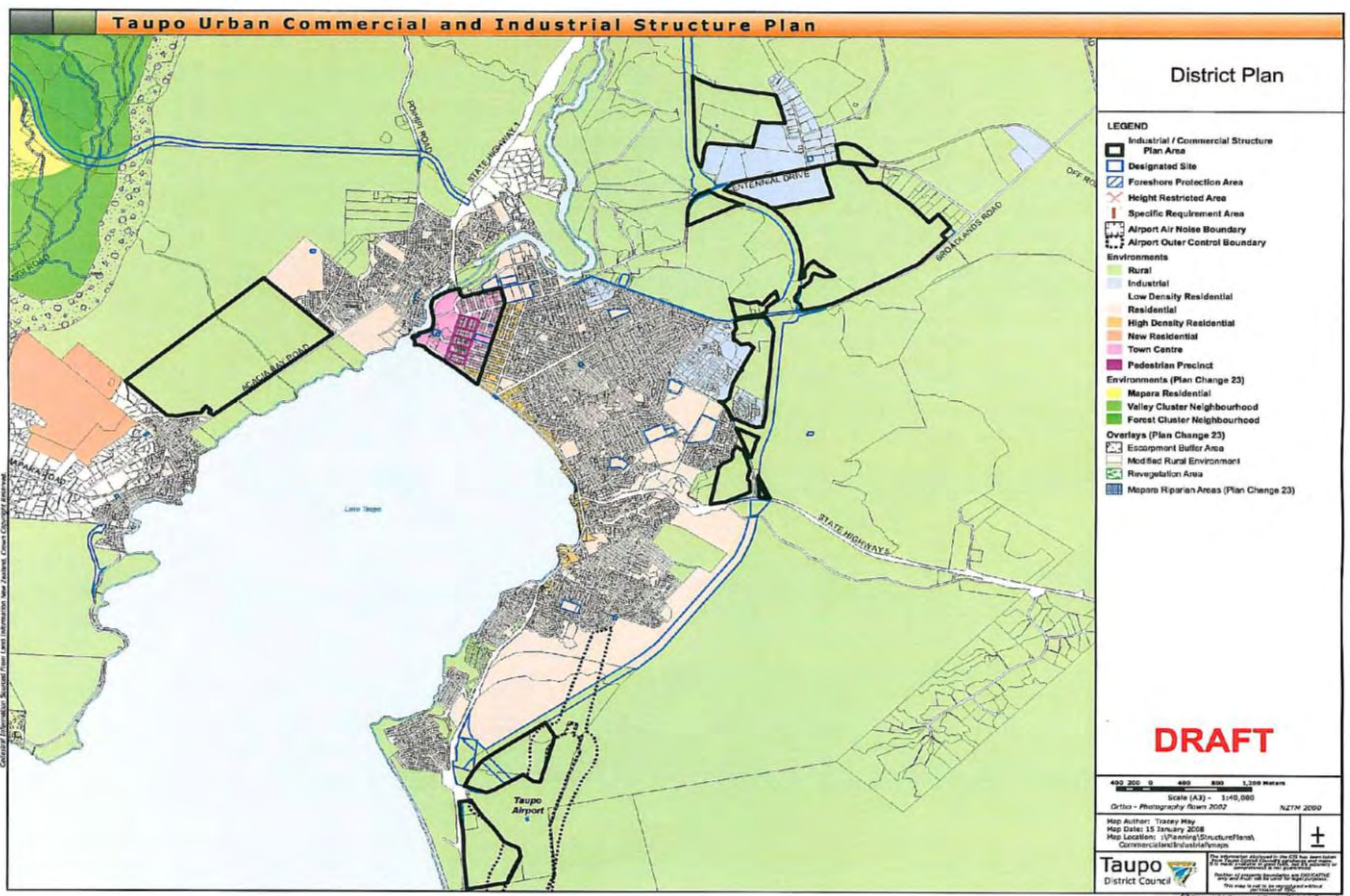


PROPOSED TAUPO URBAN COMMERCIAL AND INDUSTRIAL STRUCTURE PLAN

Taupo District 2050 identified areas for future commercial and industrial growth in and around Taupo town. To ensure that these areas are developed to meet the community's future needs, Council is developing the Taupo Commercial and Industrial Structure Plan and looking to help revitalise the town centre through the creation of a civic heart.

As at the 8th of November 2009, the Taupo District Council has released its Draft Taupo Urban Commercial and Industrial Structure Plan.

This structure plan has been approved by the Taupo District Council, and has been "notified" to the public. The initial submission period closed at 23rd September 2011. The Taupo District Council will now appoint Independent Commissioners with a hearing likely early 2012.



The Plan Changes suggest amendments to existing rules and zones in the Taupo Town Centre, Residential and Industrial Environments.

Some of the main issues the Plan Changes look to address are:

Plan Change 28 - Taupo Town Centre

- Identifying different areas within the Town Centre
- Consolidation of retail and office activity in the Town Centre
- Changes to the car parking rules
- Changes the to look and feel of town, i.e. signage, displays

Plan Change 29 - Industrial Areas

- Zoning of new Industrial areas
- Managing retail and offices in the Industrial areas
- Providing infrastructure for water, wastewater, stormwater and roading
- Protecting Residential areas and key road corridors

Plan Change 30 - Residential

- Changes to the scale of retail and office activity in Residential areas
- Office and retail restricted to no more than 50m² and two full time employees

Plan Change 31 - State Highway Five Rezoning

- New Residential and Industrial Zoning along State Highway Five.

Plan Change 32 - Spa Road Mixed Use Environment

- Rezones parts of Spa Road from Residential to Mixed Use Environment.

Plan Change 33 - Business Distribution Chapter

- New overarching chapter about the location of business in Taupo Town

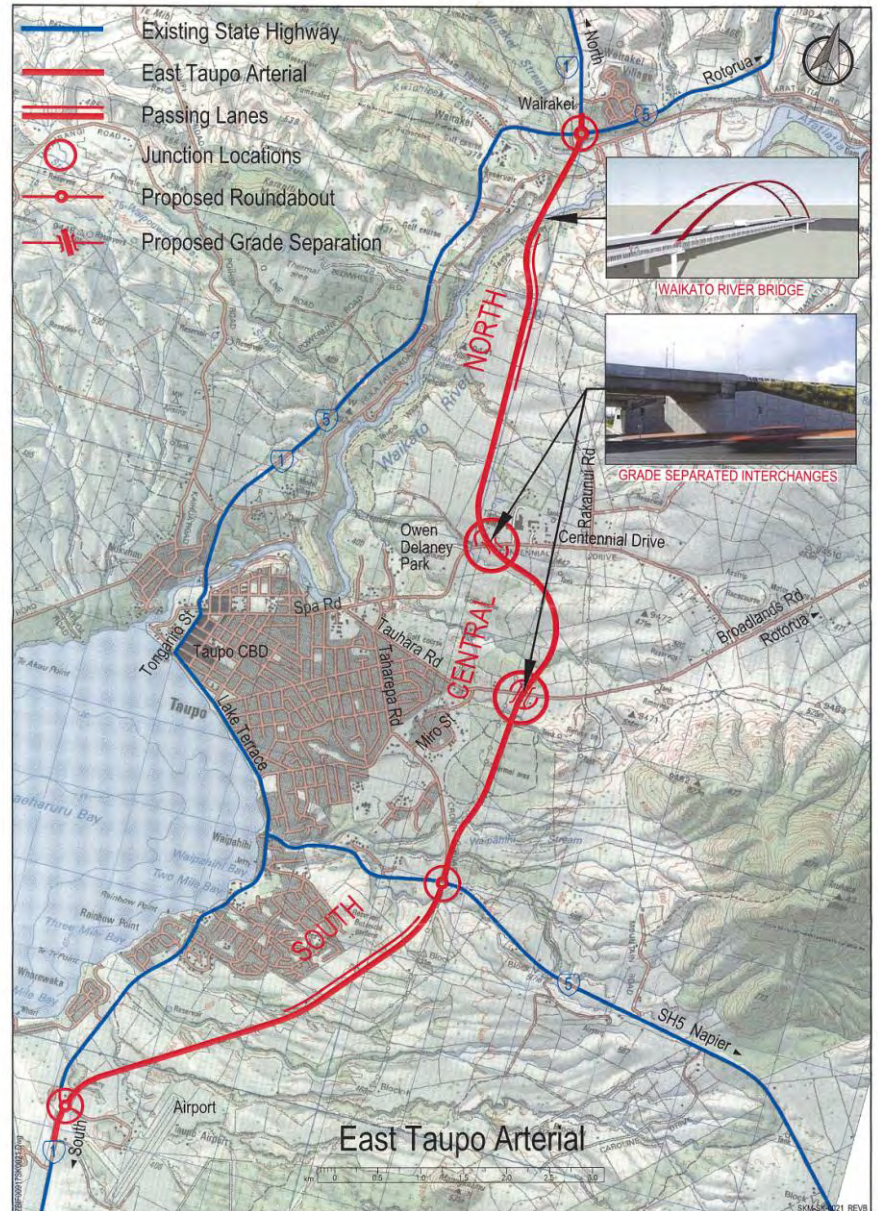
EAST TAUPO ARTERIAL HIGHWAY (ETA)

The East Taupo Arterial highway has been completed and was opened to the public in October 2010.

This provides a 16km highway along the eastern outskirts of Taupo (from Wairakei to Taupo Airport) and includes a bridge over the Waikato River.

The East Taupo Arterial has reduced the number of heavy vehicles travelling through the Taupo CBD and along the lakefront and has reduced traffic congestion during the Christmas and New Year holiday season.

Now that the ETA has been completed, the Taupo District Council is planning to provide improvements to components of the road network that will improve linkages from the ETA to town, regaining the linkages between the Central Business District, the Tongariro Domain and the lakefront. Provisions have been made within the ten year plan 'Towards 2019' for these improvements.



TAUPO EAST URBAN LANDS (EUL)

Over the past few years Taupo District Council has been developing residential sections on 190 hectares of severance land purchased in the mid to late 1990's for the East Taupo Arterial route on the south eastern outskirts of town. An industry-leading master-planned urban design development comprising approximately 2,200 lots and known as the East Urban Lands (EUL) is currently in for consideration with Council for a land use consent. This is anticipated to be a long term (20 years plus) project.

The EUL project is broken up into various neighbourhood precincts with their own individual characteristics of built environment.

The precincts include:

- a neighbourhood centre including commercial uses and high density residential
- an educational and research campus with associated commercial use and residential
- traditional residential development with varying degrees of density and character

The primary aim of this development is to create vibrant, safe interactive communities through proven urban design principles and quality, healthy homes through sustainable development. The project will be progressed on a staged basis depending on expected uptake and demand, with the first being the 17 Lot Victoria Stage 2 now completed but yet to be placed on the open market.

Currently the future and timeframes of this project are unknown.

TAUPO DISTRICT COUNCIL DRAFT LONG TERM PLAN 2012 – 2022

The Taupo District Council sought feedback from the public throughout August 2011 for the Long Term Plan (LTP) for 2012 – 2022. This proposed Plan will help decide the direction for the district for the next ten years.

The proposed LTP includes how TDC service debt, whether to maintain, increase or decrease the current level of investment in our community services such as the AC Baths and Taupo Events Centre, libraries, gymnasiums, district sports facilities and drinking water standards.

WHAT'S ON THE MARKET

The Taupo District Council has invited "expressions of interest" regarding land within close proximity of the East Taupo Arterial highway.



A 3.3328 hectare development block of Industrial land with Resource Consent to subdivide into 10 Lots situated between the existing established Miro Street Industrial area and the new Ashwood Park Industrial development. This property is currently being marketed by Bayleys Taupo.



5.7 hectares of vacant future development land on the periphery of the existing urban area having frontage to both Lake Terrace (ex State Highway 1&5) and Huka Falls Road is currently being marketed for sale by way of Mortgagee Tender. This is situated on the northern entrance to the Taupo township and enjoys lake views to parts. This property is currently being marketed by Bayleys Taupo



A 12.4 hectare Industrial zoned block of vacant land in the existing Industrial area of Rakaunui Road is being offered to the market. The contour is moderately undulating with above ground geothermal pipelines servicing the adjoining Tenon Mill site. This property is currently being marketed by Bayleys Taupo.



60 Lake Terrace, comprising a 5,033m² land area in four titles, is currently being marketed and available individually or as a single transaction. Existing improvements include a 12 unit motel complex, ex-restaurant and bar, separate amenity block plus two 3 bedroom dwellings and 22 campervan sites. This site is located within close proximity to both the Lake Taupo foreshore and the Taupo Retail Centre. This property is currently being marketed by Colliers International New Zealand.



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