THE FORECAST FOR SNOW

GLOBAL RESEARCH SHOWS PROPERTIES IN SKI RESORT TOWNS ARE REACHING RECORD PRICES. HOW DOES NEW ZEALAND'S ALPINE PROPERTY ENVIRONMENT COMPARE?

THE GLOBAL AVERAGE PRICE OF A ski resort home is rising at its fastest rate for eight years, according to the *Ski Property Report 2023* by Bayleys' global real estate partner, Knight Frank.

The report focuses on resorts in Switzerland and France and puts the rising prices down to a boost in demand thanks, in part, to hybrid working and tight supply of stock.

The Knight Frank report found the average price of a four-bedroom chalet across 23 alpine markets in the French and Swiss Alps, increased by 5.8 percent in the year to June 2022, up from 4.6 percent a year earlier. This means prime prices in those resorts rose on average by 13.9 percent during the pandemic.

According to the report, summer tourism has boosted the performance of some European resorts, with food and music festivals, and sports events helping to boost rental income for owners and investors in the traditional off-season.

The report predicts "exuberance" in the European alpine markets to cool in the next 12 months. "That's not to say we expect prices to fall... But after three stellar years, the economic headwinds will start to weigh on buyer sentiment in the Alps and globally, prompting the rate of annual price growth to slow," the report says.

Bayleys specialists in New Zealand's ski resort towns are, for the most part, seeing a similar equation with the addition of some hurdles in the form of building costs and staff shortages, and variations in market performance based on regional advantages and challenges.

A NEW ZEALAND SKI SNAPSHOT

Bayleys head of insights, data and consulting Chris Farhi says since borders reopened in 2022 the tourism market for New Zealand's key ski destinations in the Central Plateau, Canterbury and Central Otago has generally recovered well, with flow-on benefits for commercial property investments.

"The major ski destinations have seen a rapid recovery of occupancy rates for short-stay accommodation, which is likely attributed to a massive increase in international guests.

"MARKETS AROUND MAJOR NEW ZEALAND SKI DESTINATIONS, PARTICULARLY QUEENSTOWN, HAVE GENERALLY BEEN RESILIENT."

EOS LI, BAYLEYS INSIGHTS AND DATA ANALYST

"Rental markets are also reasonably tight due to the seasonal influx of workers and some homeowners taking advantage of visitor numbers by offering their homes as holiday homes."

Bayleys data shows net rental yields in Queenstown are higher than other parts of New Zealand. During Q1 2023 Queenstown rental yields averaged an estimated 3.7 percent per annum, compared with 3.3 percent for New Zealand.

Bayleys insights and data analyst Eos Li says though housing markets have experienced a downward correction in recent months, markets around major New Zealand ski destinations, particularly Queenstown, have generally been more resilient.

The median house price in New Zealand peaked at around $900,000 late in 2021 and has fluctuated since to sit at about $800,000 at the start of 2023. By comparison the Queenstown-Lakes District median price reached a high of $1.5m in early 2022 before pulling back to about $1.1m in early 2023. Other ski regions have tracked more closely to the national trend.

The Knight Frank Global Ski Sentiment Survey (conducted across 23 countries and territories as part of the 2023 Ski Report) highlighted that when choosing a property, most residential buyers looked for mountain views, high-speed broadband and outdoor space, as well as a mix of year-round activities, and a location within three hours of an airport.

Bayleys general manager commercial South Island, William Wallace says most, if not all, New Zealand ski resort areas meet those requirements which gives those regions ongoing appeal to commercial and residential investors and developers.

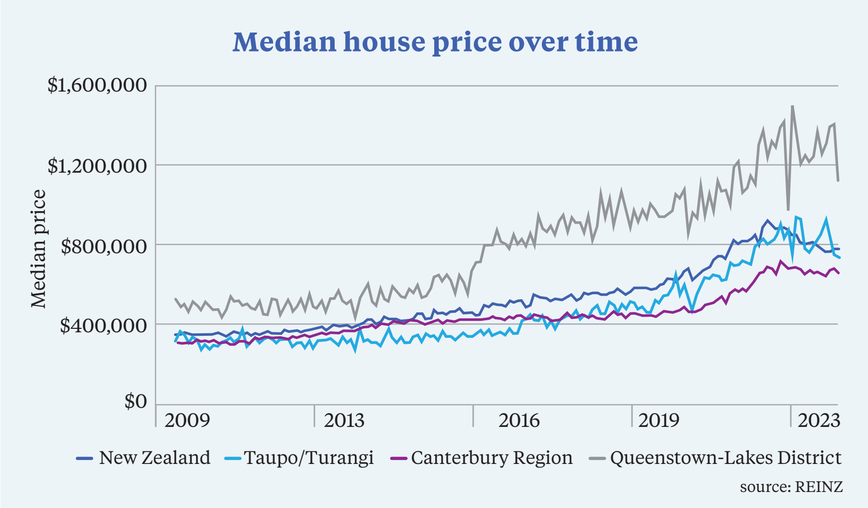
"Our ski resort towns are areas of amazing natural beauty that offer more than just skiing. They are places that people from all over the world desperately want to visit. That creates high demand for short and long-term accommodation and, in places like Queenstown particularly, the level of stock is constrained by the landscape.

"That gives investors a sense of security with commercial investments likely to attract high yields, and you're not likely to have a sudden demographic downfall that unexpectedly changes things. Commercial investors tend to look at these areas as a long-term plan with secure demand," Wallace says.

Economic volatility impacting access to funding has slowed the development market in ski resort towns to a degree, on par with other regions around the country, but one the largest hurdles facing ski resort regions remains access to staff, Wallace says.

"OFFSHORE INTEREST IS DEFINITELY GROWING AGAIN. NOT ONLY IS IT A VERY SMALL CAPTIVE MARKET, IT'S ALSO NOT POLITICALLY VOLATILE."

WILLIAM WALLACE, BAYLEYS GENERAL MANAGER COMMERCIAL SOUTH ISLAND



He is confident the problem will start to ease in the next 12 months or so, as people return to a post-pandemic 'normality'.

"People are moving around more and beginning to just live with COVID-19. As that happens, we will start to see a new influx of people into some of these areas."

The other interested parties returning to ski resort towns in pre-pandemic numbers are overseas investors, drawn by New Zealand's reputation as a safe bet in terms of taxes and stability.

"Offshore interest is definitely growing again. Not only is it a very small captive market, which makes it very manageable for investors, it's also not politically volatile, no matter who is in government."

QUEENSTOWN

Bayleys Queenstown executive director Stacy Coburn says the local residential market has been surprisingly resilient in the wake of the Reserve Bank's official cash rate increases.

"Despite a prevailing downward trend among the major centres, Queenstown has emerged as an exception, experiencing a notable increase in home values during the May quarter, with an average rise of 2.4 percent."

Coburn says while there has been some cooling with fewer buyers and listings around, and properties spending slightly longer on the market, there is still good demand across most sectors, particularly from buyers with finance pre-approvals, albeit with a stricter budget. Auckland and the wider upper North Island still seem to be strong in terms of buyer source, he says.

"Residential sales activity is still very reasonable with 59 sales in Queenstown in March 2023, which is in line with the pre-pandemic sales volume for the area," Coburn says.

Across Queenstown, Arrowtown and Wanaka, ongoing residential developments are providing opportunity for two types of occupiers. One is short-stay tourists and the other is owner-occupiers, both of which have increased pressure on long-term rental availability.

One example of this type of residential development is Hanley's Farm, south east of Queenstown beneath the Remarkables, where Bayleys has had a strong presence. Another large-scale development in the Queenstown satellite area known as the southern corridor includes Homestead Bay, formerly part of the Remarkables Station.

"What we are seeing is the development of commercial enterprises which support these new communities in the form of cafes, bars, along with the industrial developments required to support a growing population, " Coburn says.

In line with the Knight Frank survey findings, most residential investors are after lock-up and leave type properties, or those that provide both home and income, he says, allowing owners to maximise the lifestyle, flexible working, and commercial opportunities in the region.

The post-pandemic return of tourists means demand for rental accommodation is extremely high, Coburn says, creating a massive ongoing shortage of accommodation for workers, which contributes to problems for businesses in need of staff.

In terms of the commercial market, Wallace says Queenstown continues to be its own bubble.

Development land constraints mean commercial and industrial vacancies are close to zero, with some recent yields "extreme", he says adding that recent key retail developments such as Queenstown Central Shopping Centre, near the airport at Frankton have been trading extremely well with expansion plans in the pipeline.

"Queenstown is always a unique market in New Zealand and can attract a different kind of commercial buyer. There can be an element of 'trophy buying' because investors like the idea of having an asset there," Wallace says. "You also get those who purchase residential property and, because they're spending more time there, want to start making commercial investments in the region."

WANAKA

The perennial interest in Queenstown along with its geographical limitations has seen significant development expansion in satellite areas such as Arrowtown, Cromwell and even Kingston at the southern end of Lake Wakatipu.

But the largest growth has arguably been in Wanaka, a ski area in its own right which has grown from a lakeside village to a rapidly expanding resort town. The latest additions are the 100ha mixed-use Willowridge Developments Limited project, Three Parks and talk of a new international airport.

Wallace says with two lakes and multiple ski resorts on its doorstep, Wanaka is well-positioned to capitalise on Queenstown's capacity challenges in the coming years.

"Three Parks will be an exceptional mixed-use trade and residential development. It is still coming out of the ground but it's already attracted the likes of Mitre 10 Mega, a large New World and some of the big retirement groups. It will become a complete suburb," he says.

Christchurch International Airport has also bought about 750ha of farmland in Tarras, sitting about 25 minutes' drive from both Wanaka and Cromwell as it investigates developing a new international airfield. Though plans are still in development, and face opposition from multiple parties, Wallace says the land purchase is an indication of just how important Wanaka is becoming as a residential, tourist, and commercial centre in Central Otago.

"WE ARE SEEING DEVELOPMENT OF COMMERCIAL ENTERPRISES WHICH SUPPORT NEW COMMUNITIES ALONG WITH THE INDUSTRIAL DEVELOPMENTS REQUIRED TO SUPPORT A GROWING POPULATION."

STACY COBURN, BAYLEYS QUEENSTOWN EXECUTIVE DIRECTOR

CANTERBURY

Though Methven, at the base of Mt Hutt has seen a strong, steady influx of investment thanks to its close proximity to the ski fields, Wallace says, the Christchurch CBD also benefits.

The city is only 90 minutes' drive from the ski fields and offers a full city experience for visitors and investors, beyond snow-based activities, he says, pointing to recent CBD developments like The Terrace and Riverside Market.

"Christchurch offers a great environment to be in year-round, and on those days people aren't skiing, it has a lot of activities on hand. We've seen a lot of investment in multi-use spaces in the CBD," he says.

Wallace believes the Christchurch commercial market has come through recent volatility well so far, and is comparable to pre-COVID 2019 activity levels. He puts that down, in part, to an influx of new residents moving south to Canterbury from centres like Auckland, looking for a better lifestyle and lower cost of living. "That's happening in numbers I haven't seen before in my career."

In the office sector, Christchurch is seeing a similar flight to quality that's a feature of other CBD markets, like Auckland, as well as a similar slowdown in new builds, attributable to rising construction costs, Wallace says.

"The flight to quality is great, but there is a shortage of that quality stock, particularly in the CBD.

"We're seeing quite a lot of transactions in the sub-$3 million range and we're still seeing attractive yields. The industrial market has the lowest vacancy rates I think we've ever seen and rental rates for the industrial sector have increased.

"It has been tough, particularly with the increased difficulty in getting financing for many. Our team has been achieving some great results."

"IT WON'T BE UNTIL THIS WINTER SKI SEASON KICKS OFF AT WHAKAPAPA AND TUROA, THAT THE AREA WILL GET A MORE COMPLETE ECONOMIC PICTURE."

JOHN BARTLEY, BAYLEYS MANAGING DIRECTOR WHANGANUI & RUAPEHU

CENTRAL PLATEAU

The Ruapehu ski region in the central North Island paints a slightly different picture to its South Island counterparts, with less intensive residential development and commercial investment. Aside from economic volatility, the region is facing another hurdle with debate over the future of Ruapehu Alpine Lifts (RAL) which went into voluntary administration in October 2022. Creditors were due to vote on the future of the organisation in late June.

Bayleys Whanganui & Ruapehu managing director John Bartley says uncertainty over the future of Ruapehu ski fields has understandably impacted the market with almost all residential buyers traditionally wanting to be able to rent out their investment when they're not using it.

"The uncertainty combined with the cost-of-living crisis and skyrocketing interest rates means buyers have been hesitant to purchase holiday homes in the areas. However, we are seeing a lot more local residents buying permanent homes here.

"Supply is good but not exaggerated," he says. "Prices are easing on properties that have 'sat' on the market with some moving to a no-price campaign. Buyers seem to be waiting for the 'bottom' of the market. There was also talk from buyers that a lot of properties were coming off fixed interest rates, so they were expecting prices to drop drastically, with more mortgagee sales. So far, we haven't seen any sign of that."

Bartley adds that summer tourism has also been growing steadily in the region.

"It won't be until this winter ski season kicks off at Whakapapa and Turoa, and we hopefully get some news on the mountain, that the area will get a more complete economic picture."

Despite some uncertainty, there is still development underway with one large subdivision in its early stages and others waiting on resource consent as well as both summer and winter tourism development projects such as cycle trails, Raetihi walkways and a swimming pool upgrade, Bartley says.