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PROPERTY INSIGHTS

Hanmer Springs – A Breath of Fresh Air

EXECUTIVE SUMMARY

During too short a visit to Hanmer Springs in North Canterbury I discovered one of the South Island's gems, offering a breath of fresh mountain air, picturesque surroundings, hot pools and a massage for anyone wanting a bit of pampering. Hanmer Springs is on a tourist-driven growth path, starting to be discovered by overseas visitors as well as Christchurchites in search of a weekend or longer break, but it is a moderate growth path not a Queenstown-style mega-boom.

However, I also discovered that Hanmer Springs has more than enough sections either currently available or in the pipeline to cater for more than the next ten years of building activity. It also has a reasonably significant number of investors trying to sell sections, although nothing like the numbers in the large subdivision hotspots. It looks like the boom in section prices is over and, as is the case in many of the coastal and resort section markets we have analysed, it can't be ruled out that section prices will fall when the next economic downturn arrives.

There may or may not be more than enough dwellings currently on the market for sale. This namby-pamby comment partly reflects that I was only in town long enough to get a handle on the supply-side of the section market. When we compared the number of dwellings currently advertised for sale in Hanmer Springs relative to the stock of dwellings it is up there with property hotspots like Wanaka and Mangawhai Heads/Village in Northland (i.e. there appears to be more than enough to be getting on with). All these places appear to have more than enough dwellings advertised for sale when they are compared to the overall Canterbury market and to the national market.

Hanmer Springs is trying to keep up with many coastal and resort centres with an apartment building "boom" underway, if you can call three apartment buildings, only one of which is currently under construction, a boom (although one has been built already). You will have to excuse my cynicism, but with apartments proving to be one of the worst returning property investments in the last year or so, I question how well investors will do in the local apartment market.



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A breath of fresh air

Hanmer Springs (more often than not pronounced Hamner Springs) is an ideal spot for a weekend away from the Christchurch City madness (well, semi-madness) or for anyone wanting a refreshing break. It is a place of fresh mountain air, splendid views, hot pools and massage parlours (of the remedial sort not the erotic sort, and from first hand experience I can recommend them as a must have for wary travellers and property researchers alike).



Hanmer Springs is a bit under a two hour drive from central Christchurch through some scenic country side, including sheep-clad plans and semi-mountainous terrain. Much of the trip is easy driving, but with a couple of relatively short winding stretches. Passing lanes aren't numerous, but there are generally enough straights for passing the inevitable day-trippers and road hogs (i.e. the sort that speed up when you try and pass them as if their manhood is under threat). And, from my experience, there is a likeable lack of police presence.

The link below will take you to the various activities and accommodation options at Hanmer Springs:

<http://www.alpinepacifictourism.co.nz/Information/Hanmer/>

The next link will take you to a road map of Hanmer Springs:

<http://www.hanmersprings.gen.nz/hanmer.shtml>

The link below includes a webcam of Hanmer Springs and information on holiday homes:

<http://www.takeabreak.co.nz/accommodation/hanmer-springs.asp>

Below is a selection of pictures I took from Hanmer Springs looking in various directions:

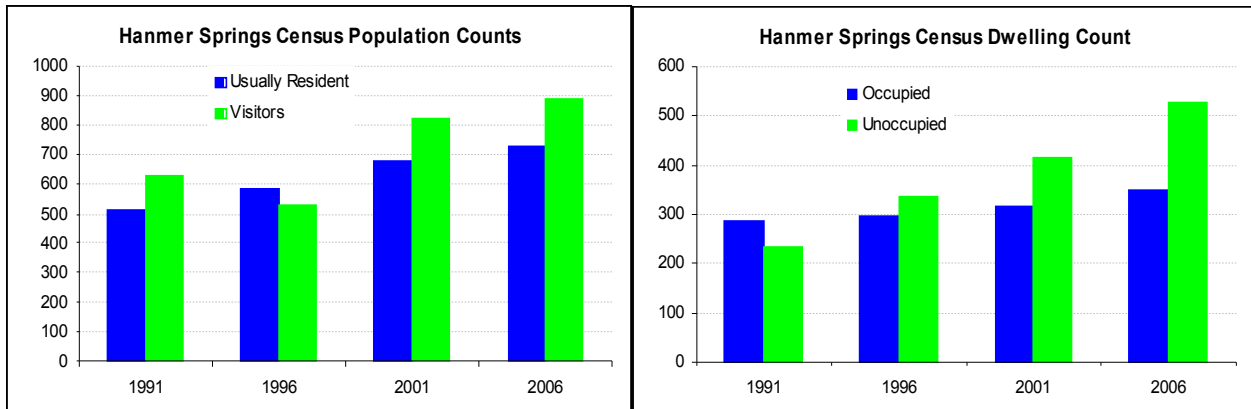




On a moderate but not spectacular growth path

The usually resident population in Hanmer Springs increased from 681 in the 2001 Census to 729 in the 2006 Census, a moderate increase of 7% over the five year period and significantly down on the increase of 16.4% over the previous five years (blue bars, left chart). The number of visitors in town on census night grew 8% from 2001 to 2006, which is not spectacular although this is not necessarily the best measure of growth in tourist numbers (green bars, left chart).

Between 2001 and 2006 the number of occupied dwellings in Hanmer Springs increased from 318 to 348, while the number of unoccupied dwellings, which in part reflects holiday homes, increased from 414 to 528 (right chart below). This represents an increase in occupied dwellings of nine per annum on average and an increase in unoccupied dwellings of 23 per annum on average, for a total increase of 32 per annum on average, which gives a ballpark for assessing demand for sections.



Plenty of section supply to be going on with

In my visit I found 55 sections for sale in Hanmer Springs, the majority of which are on the secondary market reflecting a reasonably significant but not overwhelming number of investors trying to exit the market. There were also 137 sections not for sale but not yet built on, for a total of 192 sections currently available for future building. Just over 50 of these 192 sections are in the Woodbank and Glenlea subdivisions, which are in the earlyish stages of being built on. The left picture below is across part of the Woodend subdivision (the part to be rezoned – see below), while the right picture below has part of the Glenlea subdivision in the foreground. Sections from several earlier subdivisions are still available to be built on, with these making up almost three quarters of the 192 available to be built on.



If 32 houses are added to Hanmer Springs per annum in the future as has been the case over the last five years - which could be a reasonable ballpark estimate, although we can think of reasons why the next five years could deliver both more and less incremental demand - it implies there are currently enough sections available for six years of building activity. To put this in perspective, Owen McShane, who runs the Centre for Resource Management Studies, argues that five years of supply is a healthy situation. This implies that six years of supply is not excessive, but this does not include planned future increases in supply.

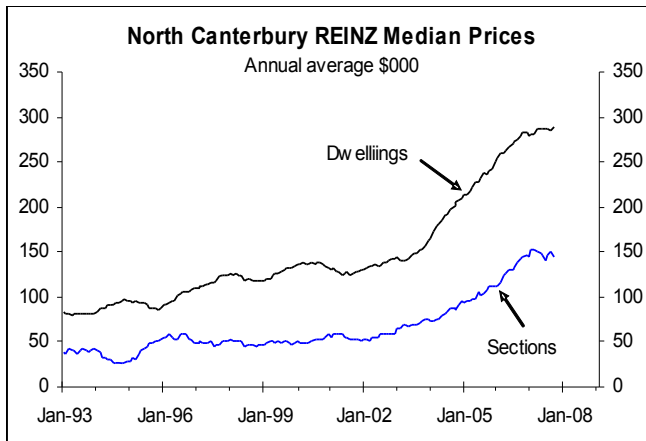
I was told by an agent that the 40 or so sections in stages 3 and 4 of the Woodbank subdivision, which were planned to be around 2,000 m² each, are not going on the market and that the developer is seeking

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rezoning to reduce the section sizes to around 500 m², which might take a couple of years to achieve. This implies there could be up to 200 extra sections coming on the market from this subdivision within the next five years. I didn't find out if more planned subdivisions are in the pipeline, but it seems that Hanmer Springs either currently has available to build on or has in the pipeline enough sections to satisfy something like 12 years of building needs, which is more than a "healthy" number.

With section asking prices of \$139-249K in Hanmer Springs sections seem cheap at face value, but compared to an average of \$156k for Canterbury-West Coast over the last year, which is dominated by Christchurch City, they aren't necessarily cheap on a relative basis. While Hanmer Springs is a little gem, we need to take into account that it is not beach front property, nor prime resort property, while Hanmer Springs isn't much more than a village in size (i.e. unlike major urban areas the local sections should have no premium built in to reflect traffic congestion and travelling time to the city centre).



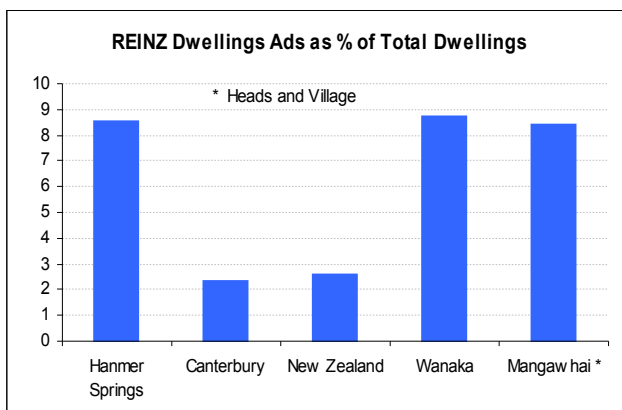
The chart shows that for the North Canterbury area - Hanmer Springs' reference group - section prices over the last year averaged just under \$150k, while before the boom they averaged under \$60k. In absolute terms (i.e. relative to incomes) section prices in general are expensive.

The average section price in North Canterbury over the last year is as high as the average dwelling price (which included a section) was in early-2003. As covered in our **Housing Prospects** reports, when the next economic downturn arrives the extent to which dwelling and section prices are currently out of line with sustainable fundamentals will be revealed.

North Canterbury includes: Amberley, Amberley Beach, Ashley, Ashley Gorge, Balcairn, Broadfields, Cheviot, Clarkville, Culverden, Cust, Gore Bay, Hanmer Springs, Hundalee, Hurunui, Kairaki, Leithfield Beach, Lewis Pass, Loburn, Motunau, Ohoka, Okuku, Oxford, Pines Beach, Rotherham, Scargill, Sefton, Southbrook, Tuahiwi, Waiau, Waikari, Waikuku, Waikuku Beach, Waipara, and Woodend - Waimakariri District.

Plenty of supply of dwellings on the market for sale?

One of the local real estate agents had a sign in the window making an appeal for vendors to supply properties for sale, which created the impression of a market short on supply. Unfortunately, there was no one in this office when I visited on Saturday morning, with a sign in the window saying back at 11.30am which was when I had to leave to make my plane out of Christchurch. I can only assume the agent was run off her feet either with would-be buyers or trying to drum up vendors, so I didn't find out if the sign actually reflected a market short on supply, but there is reason to believe the market has plenty of supply.



My focus while in town was on the section market, so the chart is the only evidence I have on local supply of dwellings. On the REINZ website www.realestate.co.nz I found 63 ads for houses for sale, three ads for units, no townhouse ads, five home and income ads, and four apartment ads. This total of 75 ads represents just over 8% of the Hanmer Springs stock of dwellings, including occupied and unoccupied in the 2006 Census. The Wanaka and Mangawhai markets also have dwelling ads at over 8% of the stock of dwellings, while for Canterbury and nationally for sale ads for dwellings run at under 3% of the housing stocks.

The birth of an apartment market

The left picture on the next page is taken from the site of the planned 13 unit Village Lakes Apartments. Six of the 13 are still for sale, priced from \$450-525k, including \$30k chattels for 2-bedroom apartments and \$40k chattels for 3-bedroom apartments. A local agent told me via email communication that they "will be

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luxury 5 star apartments” and “are due to commence late November with anticipated completion date late December 2008”. The right picture below includes the site of the proposed Rutherford Apartments of 12 units, but the agent told me “there has been a delay getting resource consent and whilst we have good interest we have yet to have anyone keen to purchase”. Three apartments are being built over a retail development on the corner of Chisholm Cres and Conical Hill Road, they are 2-bedroom at \$329k, but I didn’t get a response to my email enquiry from the agent handling these so don’t know if any are available.

The agent I got the info on the planned Village Lakes and Rutherford apartments also told me that, “Hanmer Springs only has the Clearridge apartments right now and their popularity has well and truly exceeded their occupancy projections and with apartments being the No 1 tourist accommodation requirement our village urgently requires more apartment accommodation”. Based on my experience from many parts of the country, apartment investments have proved to be some of the worst options going, in part because investors often pay over the top in the first instance, but more so because too many have been built relative to underlying demand from end users. We are certainly not talking about an avalanche of apartments in Hanmer Springs, but I would want to have a good handle on the potential income stream from the proposed apartments before coughing up a deposit.



The apartments will compete with an array of accommodation options, including several recently built large facilities. The local information sheet lists 10 bed and breakfasts, two backpacker lodges, two hotel/lodges including the large Heritage Hanmer Springs, 16 motels, five motor camps and one forest camp.

Unfortunately, Statistics New Zealand does not break its monthly accommodation survey down below the Hurunui District, which includes Hanmer Springs and the most of the places listed in North Canterbury. The left chart below shows the monthly accommodation occupancy rate (%) for Hurunui (blue line, which shows regular seasonality) and the seasonally adjusted three month average occupancy rate (black line). The right chart below compares the occupancy rate in Hurunui relative to the Kaikoura District. It is hard to say how much the low occupancy rate in the Hurunui District is reflective of Hanmer Springs. My visit on a sunny Friday night on 12 October may not be overly representative, but from what I observed there was plenty of spare capacity in town, although what that means in terms of occupancy rate it is not possible to say. Reflecting its boutique size and a quality and well-priced offering, the motel where I stayed, the Glenalvon Lodge Motels, had a 100% occupancy rate the night I stayed (i.e. if the price is right ...).

