Foreign buyer ban impacts Queenstown Lakes

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Regional Review

The foreign buyer ban impact was felt the most in Queenstown Lakes, but despite slowing growth, the market has attractive features for buyers, writes Joanna Jefferies.

Queenstown Lakes District was one of the biggest rockstar districts in the last wave of property price rises, but although the foreign buyer ban impact is possibly felt the most in this district, and growth has now slowed, there are still features in the market that make it well worth a look for investors.

According to CoreLogic, Queenstown/Frankton/Arrowtown three-bedroom homes' median values have risen 76.1% over the past five years, and 5.1% in the past year to sit at $1,199,150. While in Wanaka, they've risen a whopping 80.4% (of which there was just 1.6% increase in the past year) in the past five years to sit at $934,450. However the discrepancy in three and four-bedroom properties is quite marked. In Wanaka, a fourth bedroom increases the median value to $1,276,550, while in Queenstown four-bedroom homes come in at $1,536,850 – that's over $300,000 more than a three-bedroom property.

But before you let the high prices scare you away from this market – it's seriously worth taking a look at yields. In Queenstown/Frankton/Arrowtown they sit at 3.4% for a three-bedroom, while in Wanaka they sit at 3.2%.

Foreign buyer ban impact

Values have slowed sharply shortly after last year's foreign buyer ban in Queenstown and CoreLogic senior analyst Kelvin Davidson says Queenstown has felt this effect possibly more than any other location in New Zealand.

"Queenstown seems to be the most affected market in the country – and we all know the stories about it being an international buyer's playground, so if it was going to play a role anywhere it will have done so in Queenstown."

But Davidson isn't expecting prices to fall in the area, rather he says a continued slowdown, or plateau is likely to occur in the year ahead, due to continued strong demand set against affordability pressures, and construction of new supply. CoreLogic's latest buyer classification data shows that 32% of buyers in the first quarter of 2019 were investors with a mortgage, 13% were first home buyers (or new-to-the-market) and another 24% of sales went to investors with cash.

For context, across New Zealand as a whole, first home buyers made up 24%, investors with a mortgage 24% and cash investors were just 13% in the first quarter.

The “new to the market” category includes anyone who hasn’t shown up on a property title before, and Davidson says this category has dropped off more steeply recently in Queenstown, probably partly due to the foreign buyer ban.

High yields in Queenstown

Queenstown is a two-tiered market, with local hospitality workers paying high rents, while on the other tier, professional locals, holiday makers and (previously) foreign buyers were happy to pay high prices for homes in the picturesque area.

First National Queenstown agent Shaun Casey says while price points look high, comparatively good yields mean many investors are still buying in Queenstown.

“A double room in this area is renting for about $300. So if you’ve got a three-bedroom, two-bathroom house you are looking at about a $900 rental return.”

Casey says the investors he sees buying are long term buy-and-hold investors and they are buying for long term capital growth.

Along with capital growth and reasonable yields, the market has other features attractive to landlords, such as tenant demand and quality.

Vacancies are negligible says Casey: “You’re not likely to have a property ever vacant for more than five or six days.”

Many of the tenants could potentially afford to service a mortgage themselves, says Casey, but they are finding it difficult to save the necessary deposit. Therefore, there is a high-calibre market of professional tenants and families available, as well as local hospitality and tourism workers.

“Tenants with pets are also asking for fixed term tenancies of two years or more.”

But Housemart director Hayley Stevenson says there has been a marked change in rental supply this year.

“At the moment we have 22 properties available and coming available,” says Stevenson. “As of Easter the market has gone very quiet.”

A year ago this figure sat at only five properties available. However, enquiries are coming in thick and fast as seasonal workers pour in to the town between March and June.

Further residential developments are expected to alleviate any housing shortage that Queenstown is experiencing. Housing and Urban Development Minister Phil Twyford confirmed more than 300 homes, including 100 KiwiBuild Homes will be constructed close to the CBD, with the first homes expected to be completed in 2022.

Stevenson says anything will rent at the moment, but she recommends investors look at homes that already meet the Healthy Homes standards, such as at Lake Hayes, or nice properties in the CBD, so that in the event of a downturn the property will still rent easily.

But landlords don’t need to worry about the calibre of tenants in the area, says Stevenson.

“We have less than 1% rental arrears in the whole of the portfolio – these people are hard-working people and they need to work long hours to afford the rent.”

But because of their long working hours, anything with a high maintenance outdoor area will not be as attractive to tenants, warns Stevenson.

Wanaka

In Wanaka there are several subdivisions underway, along with a new supermarket under construction, a new primary school, and water sports centre on the lakefront.

Because homes there don't achieve the same yields as in Queenstown, the Wanaka market is more attractive for its capital growth rather than yield, says Harcourts Central Otago managing director Kelvin Collins.

Rental demand also fluctuates.

"The rental demand there is quite seasonal, around peak summer and peak winter. Wanaka has a lot of big sections and holiday houses, it's a holiday home type market.

"So for an investor you're actually buying a lot of land for your house, you're not getting a very good return."

However Collins says subdividing property and adding dwellings in Wanaka isn't difficult and is one way investors could increase returns.

The councils in both Queenstown and Wanaka are trying to facilitate more higher-density living within walking distance to the CBD areas, in an effort to increase accommodation and get cars off the road.

Home & Co Property Management director Colleen Topping says there's a good amount of residential construction occurring in Wanaka, and as such rental demand is holding steady in the area.

"Rents are remaining steady as well," says Topping. "I haven't really seen an increase in rents over the last six months, but we're not seeing a drop either."

At Lake Hawea the Timsfield subdivision is currently releasing stage eight of their development – there have already been close to 400 sections released. The added supply means values are holding steady, against high demand, particularly in the winter season.

"As the subdivision around Lake Hawea gains traction, I think we'll see more services, such as preschools move out there – it's certainly a popular area amongst young, local families and I think it's a good area for future growth."

The Northlake subdivision close to Wanaka is also still releasing in stages.

Topping says the new stock will support a local tenant pool mainly made up of those moving from bigger cities for management level jobs, as well as hospitality and tourism workers.

"We've got a really good stock of tenants here, they tend to be employed, because there is such competition [for property] they come with good references and they know they have to be good tenants because it's so hard to get rentals here."

Not only are tenants of high calibre, but properties tend to be up to scratch, too.

"If you think of the changes to the laws, how landlords have to provide warm, dry homes – most of our stock in Wanaka fits that category anyway, which is a plus."

These features of the market, while set against a high entry price point, mean both Queenstown and Wanaka can be a stable investment opportunity for investors with the ability to finance.