

Master of Property Studies

Is Wanganui City Ready for the
1990s Phenomenon of
Inner-City Apartments?

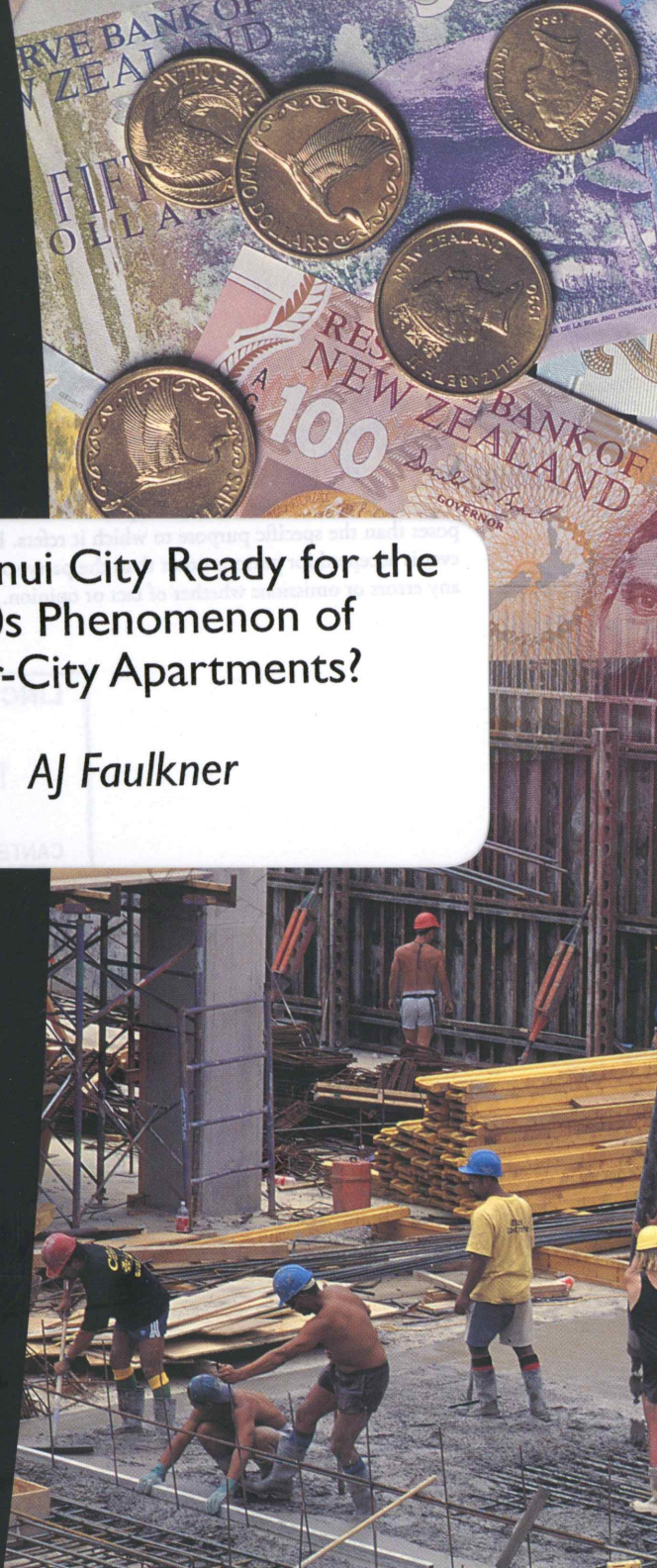
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Te Whare Wānaka O Aoraki



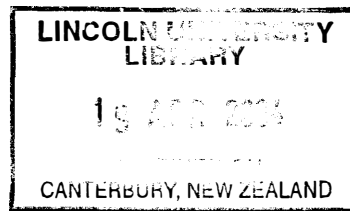
Is Wanganui City Ready for the 1990s Phenomenon of Inner-City Apartments?

AJ Faulkner

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Executive Summary

During the 1990s there has been a trend to convert existing inner-city buildings into residential apartments. This trend has not been applied with uniform success, however, as success is dependent on the right combination of a range of factors which vary from region to region. In order to make a sensible decision, therefore, anyone involved in the decision whether or not to develop inner-city apartments needs to be aware of the local needs and patterns and understand how they will contribute to the success or otherwise of a development.

This report analyses those factors in regards of Wanganui city. It identifies the salient features of Wanganui and compares them to those of other centres in which inner-city apartment developments have met with varying degrees of success.

Using a quantitative approach, secondary and primary data have been collected and analysed. The following general findings have emerged regarding the potential success of inner-city apartment development:

- inner-city living should utilise good views and ease the buyer's transport problems
- there is a ceiling on asking prices and resale prices
- high conversion costs will affect the economic viability of a development, given the ceiling on sale prices
- a small locale reduces the advantages of inner-city residential living and also has an effect on the prices that can be asked in selling and reselling such properties.

The situation regarding Wanganui in particular means that anyone involved in investing in such property development needs to be aware that:

- sale and resale will be influenced by historically static prices and erratic movement in residential sales
- the population base is not one traditionally attracted to inner-city living, i.e. it is aging, increasingly transient and, with employment uncertainty (redundancy, restructuring and the increase in short-term contracts over permanent tenure in the professions), is less likely to undertake a high investment in property.

Add to this the results of a survey of possible development sites, and the equation of not insubstantial conversion costs minus a small, price-locked market leaves development of such sites as economically risky. The safest prospect would be to undertake limited development with no borrowings and be prepared to rent them in the short term if the selling market is not favourable.

Introduction

This market analysis case study considers whether Wanganui city is ready for the 1990s phenomenon of inner-city apartments. It was prepared for Crest Consultancy of Auckland, but it is envisaged that it could benefit the following people:

- Wanganui real estate agents
- Wanganui property professionals, i.e. valuers, property managers, etc.
- Wanganui property developers
- Wanganui property investors
- lending institutions.

Any assumptions in this report are based on my experience as a:

- registered valuer
- property consultant
- real estate consultant
- works officer
- property manager.

The report also uses my knowledge of the real estate market in Wanganui and the Lower North Island. I have used extensively my network of property professionals throughout the lower North Island.

Research Undertaken

APPROACH

Before starting the project I looked at two types of research in depth:

- quantitative research—a scientific method which involves a process that includes stating the problem, developing a hypothesis, obtaining relevant data, testing the hypothesis and confirming or denying the hypothesis
- qualitative research—a type of research which is much less structured and regimented in its approach and concepts than quantitative research.

Because of the following factors, I adopted a quantitative research approach:

- cost
- time
- the need to keep it simple.

PROCESS

The process I decided on involved a mail survey using structured questionnaires. Separate questionnaires were sent to the following groups:

- Wanganui real estate agents
- provincial city property professionals
- Wanganui property investors.

Market Commentary

My market research on inner-city apartments was divided into four groups:

- major cities — Auckland, Wellington, Christchurch and Dunedin
- major provincial cities — Palmerston North, Hamilton and Tauranga
- minor provincial cities — New Plymouth, Napier, Hastings, Gisborne and Rotorua
- Wanganui.

For the major cities, my only research was to read local newspapers and real estate magazines, etc. Some of my readings are included in my report in appendix E.

Detailed research was carried out on both the major and minor provincial cities and is included in my report in appendix E.

MAJOR CITIES

During the 1990s there has been a tremendous and very exciting phenomenon in the development of inner-city apartments, especially in the major cities. Originally, this took the form of the conversion of existing structures, such as office blocks and warehouses, but now purpose-built structures are becoming quite normal.

MAJOR PROVINCIAL CITIES

The phenomenon of inner-city apartments is now starting to occur in other centres, such as Palmerston North and Hamilton. Unfortunately, I did not get any feedback from Hamilton or Tauranga, but in Palmerston North two major developments have been completed. They were not successful, however, and another proposed development was abandoned. The reason for this lack of success is that Palmerston North

is too small and compact. There are no traffic problems, nor any real property views, both of which factors frequently increase the appeal of inner-city living.

MINOR PROVINCIAL CITIES

There has been some activity in the minor provincial cities, however, albeit largely minor. A very successful conversion project has been completed in New Plymouth, which has magnificent sea views. In Napier, there have been some very minor developments — just 10 units have been developed. Part of the reason for the limited activity there is that it is a small market which only appeals to a limited sector. Development has been surprisingly slow in Rotorua where only six units have been developed. They have proved to be slow-moving, with very little interest shown in them. A major factor for this, however, is likely to be the high asking price. There have been no developments in Gisborne, and I did not get any feedback from Hastings.

WANGANUI

Commenting on the overall state of the residential real estate market in Wanganui, three trends emerge:

- there have been no real bust and boom periods over the years
- prices have tended to be static
- the number of sales has varied (1994–827; 1995–697; first eight months of 1996–557).

Market Analysis

The process I have undertaken is as follows:

- ascertain what information I am trying to obtain
- consider secondary versus primary data
- ascertain what is the most appropriate survey type, e.g. telephone versus mail
- select survey sample
- design the questionnaire, choosing the types of question — open, closed, box-ticked or multichoice
- undertaking research
- analyse the results.

For a market analysis of city apartments in Wanganui for 1994, 1995 and 1996, please refer to the spreadsheets and charts appended in appendix E. From an analysis of the data, we can conclude:

- the number of sales is very erratic
- the median sale price is very static.

The median sale price for a Wanganui city apartment from 1 January 1994 to the present time is approximately \$75,000. However, if you take into account likely construction costs and acquisition costs etc., the likely asking for apartments is going to be in excess of \$100,000.

Analysis of Possible Future Sites in Wanganui

A number of sites were inspected in the Wanganui city area to ascertain their potential for future development, and to identify which factors contribute to the decision on whether or not a site is suitable for developing. Following is a summary of the 18 sites.

42 BEDFORD AVENUE

The factors are:

- *description* — ex-woolstore complex
- *status* — renovated and substantially upgraded for Warnocks Head Office, now vacant
- *features* — plenty of carparking on site
- *location* — poor
- *convertibility* — limited conversion costs.

Recommendation: Overall, not really suitable.

ST HILL STREET

The factors are:

- *description* — ex-Red Cross hall
- *features* — no carparking on site, but possible in near vicinity
- *location* — very good, only metres away from city centre
- *convertibility* — conversion costs very high.

Recommendation: Overall, not really suitable.

CORNER RIDGEWAY STREET & VICTORIA AVENUE

The factors are:

- *description* — ex-Trustbank head office
- *status* — retail shop on ground floor and offices above, with some space vacant
- *features* — attractive building; no carparking available on site or in the near vicinity
- *convertibility* — conversion costs very high.

Recommendation: Overall, not really suitable.

99 VICTORIA AVENUE

The factors are:

- *description* — known as Perretts Building
- *status* — retail ground floor; part-offices, part-accommodation upper floors
- *features* — attractive building; no carparking on site or near vicinity
- *convertibility* — conversion costs very high.

Recommendation: Overall, possible development.

CORNER RIDGEWAY STREET & VICTORIA AVENUE

The factors are:

- *description* — known as Wakefield Chambers/Broadway Buildings
- *status* — retail ground floor, offices upper floors
- *features* — no carparking on site but available at rear
- *convertibility* — conversion costs very high.

Recommendation: Overall, not really suitable.

CORNER GUYTON STREET & WILSON STREET

The factors are:

- *description* — ex-firestation
- *status* — converted into sports clinic, now vacant
- *features* — attractive building; no carparking on site or near vicinity
- *location* — good
- *convertibility* — conversion costs reasonable.

Recommendation: Overall, possible development.

CORNER GUYTON STREET & VICTORIA AVENUE

The factors are:

- *description* — ex-Government Life complex
- *status* — retail ground floor; offices upper floors
- *features* — plenty carparking at rear of the complex
- *location* — good
- *convertibility* — conversion costs reasonable.

Recommendation: Overall, not really suitable.

CORNER TAUPO QUAY & VICTORIA AVENUE

The factors are:

- *description* — ex-hotel, now Fosters Tavern
- *status* — recently undergoing major renovation and refurbishment
- *features* — limited carparking at rear of site
- *location* — good

- *convertibility* — conversion costs reasonable.

Recommendation: Overall, not suitable for apartments until tavern is closed.

VICTORIA AVENUE #1

The factors are:

- *description* — ex-bank, now known as Commerce House
- *status* — converted into offices
- *features* — plenty of carparking on site
- *location* — good
- *convertibility* — conversion costs high.

Recommendation: Overall, possible development.

VICTORIA AVENUE #2

The factors are:

- *description* — ex-insurance company head office
- *status* — converted into retail and offices into mall layout
- *features* — attractive complex; no carparking in near vicinity
- *convertibility* — conversion costs reasonable.

Recommendation: Overall, possible development.

CORNER VICTORIA AVENUE & RIDGEWAY STREET

The factors are:

- *description* — ex-hotel, now retail and offices
- *status* — recently completely renovated and refurbished

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- *features* — attractive building; plenty of carparking at rear of the complex
- *convertibility* — upper floors could be converted into apartments with limited cost.

Recommendation: Overall, good prospect.

SOMME PARADE

The factors are:

- *description* — ex-computer centre, now vacant
- *status* — modern attractive complex
- *features* — plenty of carparking on site
- *location* — very good, with good views over Wanganui River
- *convertibility* — conversion costs really unknown.

Recommendation: Overall, good prospect.

CORNER VICTORIA AVENUE & GUYTON STREET

The factors are:

- *description* — ex-insurance company offices
- *features* — attractive building; no carparking in near vicinity
- *convertibility* — conversion costs high.

Recommendation: Overall, not really suitable.

208 VICTORIA AVENUE

The factors are:

- *description* — ex-insurance company offices
- *status* — modern building

- *features* — attractive building; plenty of carparking in the near vicinity
- *convertibility* — conversion costs possibly high because of structure.

Recommendation: Overall, good prospect.

CORNER BELL STREET & GUYTON STREET

The factors are:

- *status* — purpose-built flats.

Recommendation: Not suitable.

VICTORIA AVENUE #3

The factors are:

- *status* — purpose-built flats.

Recommendation: Not suitable.

WILSON STREET

The factors are:

- *status* — large vacant site
- *location* — good
- *convertibility* — suitable for purpose-built flats.

TAUPO QUAY WANGANUI

The factors are:

- *status* — large vacant site
- *location* — good
- *convertibility* — suitable for purpose-built flats.

Secondary Data

One of the major tasks of research is to collect valid and reliable information for use in the research process. The two broad classifications of data are:

- primary data — observation, experimentation and questionnaires or surveys
- secondary data — existing information collected from a number of sources.

For this project, I have collected the following secondary data:

- Supermap — obtained from Wanganui City Library and Lincoln University Library, and used to collect statistical data from the census
- Valpak — obtained from Bycroft Petherick Ltd Registered Valuers, and used to collect sales records of apartment sales in Wanganui
- real estate lists — obtained from United Realty, Wanganui, and used to collect sales records of residential properties in Wanganui
- real estate statistics — obtained from United Realty, Wanganui, and used to collect real estate sale statistics of residential properties in Wanganui
- newspaper clippings — obtained from *The Dominion* and the *Wanganui Chronicle*, and used to obtain any information on residential properties
- real estate magazines — obtained from various real estate firms, and used to obtain sale information.

Conclusions and Recommendations

My initial thoughts on this project were that the development of inner-city apartments was not viable for several reasons:

- few existing buildings were available for conversions
- few vacant sites were available for the erection of purpose-built units
- there seems to be a limited market
- conversion costs were likely to be high.
- asking prices were likely to be high.

Factors that were taken into account were:

- aging of population
- changes in lifestyle
- population more transient
- more professional people on short-term contracts
- likely corporate usage
- likely polytech/high school usage
- likely serviced apartment usage.

CONCLUSIONS

Based on my extensive research, the following conclusions were reached. Regarding inner-city apartments, in particular, they appear to:

- be unproven, especially in provincial cities
- have a very limited market
- have poor resale.

Compounding these issues is the fact that people are still worried about their:

- retirement
- rising health costs
- jobs, especially with the closing down of industries and the amalgamation of government departments and banks, etc.

RECOMMENDATIONS

Bearing these issues in mind, I would recommend the following:

- that no development of inner-city apartments be carried out in Wanganui city
- however, if a developer has no borrowing, minor development (say 6–10 units) could be carried out
- be prepared to convert to rental in the short term.

List of Appendices

- A Maps
- B Questionnaires — Real Estate, Property Professional, Property Investor
- C Correspondence
- D Returns — Real Estate, Property Professional, Property Investor
- E Secondary Data

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