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RODNEY'S RAVINGS

The house, section, lifestyle and coastal markets are starting to creak

EXECUTIVE SUMMARY

With annual house price inflation running at double digits again and, as covered in our **Housing Prospects** report, the peak in the national median house price still some way off, it could be easy to believe there is plain sailing ahead. But the house, section, lifestyle and coastal property markets are a bit like an old schooner approaching an uncharted coastline. The shore is close and the tide is favourable, but between the boat and the shore is a treacherous reef that has been the graveyard of many an unwary sailor, while the waves are starting to pound, an ill wind is threatening, and the boat is starting to creak and groan under the pressure of the competing forces.

All the house and section price valuation measures contained in our **Housing Prospects** reports are showing signs of extreme overvaluation of speculative bubble proportions, while the early signs of stress are starting to emerge. "Real estate agents say mortgagee sales have doubled in the past year as a small but rising number of debt-laden property investors reach crisis point ... Harcourt's mortgagee sales had doubled from about five per month a year ago to about 10 per month now. About one-third of mortgage listings were now investment properties. ... An ANZ bank survey of property investors last month found almost half were running their properties at a loss, and relying on capital gains to offset the shortfall." (Source: Sunday Star Times, 29 April 2007)

Being a regular reader of Property Guide magazines Denise is my best source of anecdotes on the housing and section markets. Over the last couple of months she has noticed a marked increase in the number of "motivated" vendors. To give some flavour to the creaking starting to go on in the house, section, lifestyle and coastal property markets this Raving provides evidence of the growing number of "motivated" vendors. It also looks at a couple of examples of markets in which investors appear to be hanging on by their finger tips.

You can use the following link to our website if you want to view a free sample of the **Housing Prospects** report - <http://www.sra.co.nz/housing.html>.



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The house and section markets are beginning to creak

Denise is a regular reader of Property Guide magazines, making her my best source of anecdotes on the housing and section markets. Over the last couple of months she has noticed a marked increase in the number of “motivated” vendors. For example, below are our ten favourite extracts from ads in the 30 May 2007 Northland Property Guide which focuses on the Whangarei District. Note the innovative use of red ink in some of the ads, although red ink possibly conveys the wrong message.

How many anecdotes does it take to make a theory? In statistics anything under 30 is a small sample, so the **Appendix** contains another 30 extracts from ads in the 30 May 2007 Northland Property Guide that reflected “motivated” vendors. And a sample of 40 (10 + 30) turns our anecdotes into evidence of the statistically compelling nature.

The 40 examples certainly do not all reflect stressed vendors, but these anecdotes show that there is now a significant pool of motivated vendors. The examples include houses, from cheap to expensive, residential sections, lifestyle properties and blocks, and coastal properties and sections (i.e. something for every bargain hunter). However, as covered in our **Housing Prospects** reports, these properties will be a long way from being bargains in an absolute sense.

As also covered in our **Housing Prospects** report, the Whangarei District is particularly prone to advances and retreats by investors, but similar developments will be unfolding to a greater or a lesser extent in other markets around the country.

“Priced Reduced. Serious Offers Over \$500,000 Sought! Disregard all previous prices – owners are ready for offers.” (House)

“INVESTORS AND DEVELOPERS ALERT. Owners say ‘MUST SELL’.” (House)

“Huge Reduction. Whangarei Heads Vendor Wants Sold.” (House)

“OWNER DEADLY SERIOUS. Disregard all former asking prices. Builder/Owner committed elsewhere and will now meet the market. THIS BRAND NEW HOME MUST BE SOLD MAKE YOUR OFFER.”

“MATAPOURI RETREAT – PRICE SLASHED. This property has been priced to sell quickly. Offers over \$595,000.” (House – this could be right up your alley Howsie).

Priced to SELL SELL SELL. This section is priced to sell – and the savvy buyer will never look back.”

“Keen vendor is asking \$167,000 but will look at any reasonable offer.” (Coastal section)

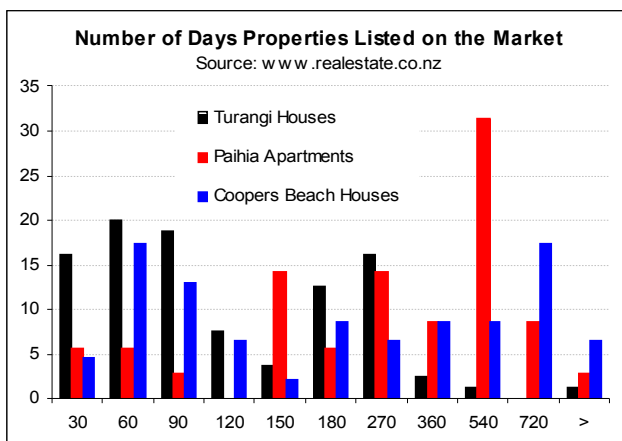
“What’s your offer? Was \$279,000, Now \$255,000. What is your offer?” (Coastal section)

“Massive Price Reduction. ... and now the price has dropped by \$30,000!!!” (Coastal house)

“Motivated vendor, so move quickly. ALL OFFERS PRESENTED.” (Lifestyle block)

Signs are emerging that some investors must be hanging on by their finger tips

The houses that sold via real estate agents in April on average took 28 days to sell, which compares to the historical average of 38 days to sell since January 1992. So in general houses are turning over quickly, although, as in our **Housing Prospects** reports, we expect the turnover rate to slow significantly in the second half of the year. But an ill wind is starting to blow in some quarters.



As part of our recent Kerikeri-Paihia-Russell **Property Insights** report we investigated how long the apartments in Paihia that were currently being advertised for sale on the REINZ website (www.realestate.co.nz) had been on the market, and were staggered to find the average was 357 days. The following link takes you to the part of our website that stores the free **Property Insights** reports: <http://www.sra.co.nz/free.html>. So we investigated the matter further.

We used www.realestate.co.nz and viewed all the apartment-for-sale ads for Paihia and the house-for-sale ads for both Turangi and Coopers Beach. We calculated what percentage of the properties had



been on the market for 30 days or less (see the three coloured bars above 30 in the chart on the previous page), 31-60 days (bars above 60), 61-90 days (bars above 90), etc. In a buoyant market, where houses are turning over quickly, we would expect the largest percentage of properties to have been on the market for 90 days or less and for few properties to have been on the market for more than six months (i.e. around 180 days).

In the case of Piahia apartments 66% of them had been on the market for more than 180 days, while 48% of Coopers Beach's houses had been on the market for more than 180 days. Small markets a long way from large populations can be expected to have slower turnover rates, but this should apply to Turangi almost as much as Coopers Beach and Paihia. The marked contrast between the Turangi skyscraper and those for Paihia and Coopers Beach should probably ring warning bells, while we suspect even Turangi has a slightly worrying skyscraper.

We intended to do a more in depth analysis of which markets around the country had worrying skyscrapers, but soon after we released our initial findings on the Piahia apartments the days on the market info on www.realestate.co.nz disappeared. This is most likely a coincidence, but possibly not.

Appendix – Further extracts for adverts in Northland's Property Guide, 30 May 2007

"Priced to sell also attractive to the savvy investor." (House)

"This property must be sold – vendors are moving." (Near new house)

"Vendor will look at any reasonable offer." (Marina section)

"Calling All Bargain Hunters & Land Bankers! Serious seller, who needs to liquidate assets!" (Section)

"HOUHORA MORTGAGEE AUCTION. You can be confident with the realistic mortgagee of getting value for money." (Lifestyle property).

"CHEAP LAND GRAB. Deep in the heart of Titoki is the buy of the century." (Lifestyle block)

"VENDORS MOTIVATED – MUST SELL! Reduced to \$269,000. (House)

"GV is \$510,000 but Vendors will consider all reasonable offers over \$480,000." (Lifestyle property)

"**Must Be Sold.** Stressed Owners Got To Sell. Owners absolutely realistic will meet the market and will consider all offer." (House)

"Hard To Believe was \$485,000 NOW \$459,000." (House)

"Price Reduction – Be Fast. Was \$399,000 NOW \$319,000." (House)

"**Urgent Sale. Pay Deposit Balance in 4 months or sooner to suit.**" (House)

"**URGENT! VENDOR INSTRUCTION SELL!!** Motivate vendor says sell! Relocating out of town away from the city pressure." (House)

"**Price Reduction.** Price has been reduced to \$369,000." (House)

"Present all offers. Yes vendor has COMMITTED elsewhere and needs property sold! Bargain buying and must sell! (Lifestyle property)

"Price Reduction. (House)

"PRICE REDUCED. Owners have made new plans and are keen to sell." (Lifestyle property)

"Vendors Want Action!! – Price Reduction. Now Offers Over \$300,000 Considered." (House)

"Migrating Vendor Wants Action." (Lifestyle property)

"Transferring Vender/Wants Action." (House)

"Our vendors circumstances have changed and they now require an urgent sale." (Section)

"Vendors Instructions Are To Sell." (Lifestyle block)

"Urgent Sale Wanted. Offers Considered In The Late \$200,000's." (House)

"**PRICE REDUCTION.** Better Take A Look." (Lifestyle block)

"Present all offers on this \$339,000 Neg!" (House)

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“Price Reduction On Paradise! Bargain buying at this.” (House)

“Reduced to \$509,000.” (House)

“Price Reduced. What A Bargain! Overseas vendor wants action! Present all realistic offers now!!!” (Marina section)

“Price Reduction. Offers over \$335,000.” (Lifestyle block)

“Committed vendor.” (Four lifestyle blocks)

RODNEY’S RAVINGS – past reports

The reports with bold titles are available in the **Literacy Centre** of our website www.sra.co.nz

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