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## PROPERTY INSIGHTS

### The Kerikeri, Paihia and Russell House & Section Markets

#### EXECUTIVE SUMMARY

The boom in sales is over, but sales levels of both dwellings and sections in Kerikeri, Paihia and Russell are still high by pre-boom standards and days to sell are a touch below average, so in general property prices still have some upside potential. However, these markets also have an elevated number of properties on the market for sales, especially the case for sections, particularly lifestyle sections.

Our fact finding visit to Kerikeri-Paihia-Russell encouraged us to re-write the old adage of “location, location, location” to read “location, fit for the purpose, priced for end-users”. We saw lots of sections in non-prime locations, not particularly fit for the purpose and certainly not priced at levels in line with end-user affordability. This is especially evident in the lifestyle section market. We also saw some fantastic sections, but too often the price was an obstacle. There were also some reasonably priced sections (i.e. reasonable in the context of a generally over-priced market).

Population growth in Greater Kerikeri has averaged 5.5% per annum since 1991. It is all about a warm climate, a picturesque environment and ample land supply (a magnet to retirees). By comparison, population growth in Greater Russell and Greater Paihia has stagnated. But Kerikeri’s strong population growth has attracted numerous developers and Kerikeri now has enough new sections to go around for the next several years and more. It also has a temporary oversupply of spec houses, with the risk that asking prices will have to be cut to sell in some cases.

Paihia had a surprising number of new sections given its low population growth, but the most eye-catching feature was the number of unsold apartments that have been on the market in search of buyers for months and months and months.

Even in sleepy, but picturesque Russell we found four spec houses, several small subdivisions and a holiday/resort subdivision of around 30 sections that looked decidedly out of favour with buyers. With limited population growth historically, and no reason we could see for this to change in the future, we expect Russell to take some years to absorb the number of sections currently available on the market (although even then the prices will still have to be right).



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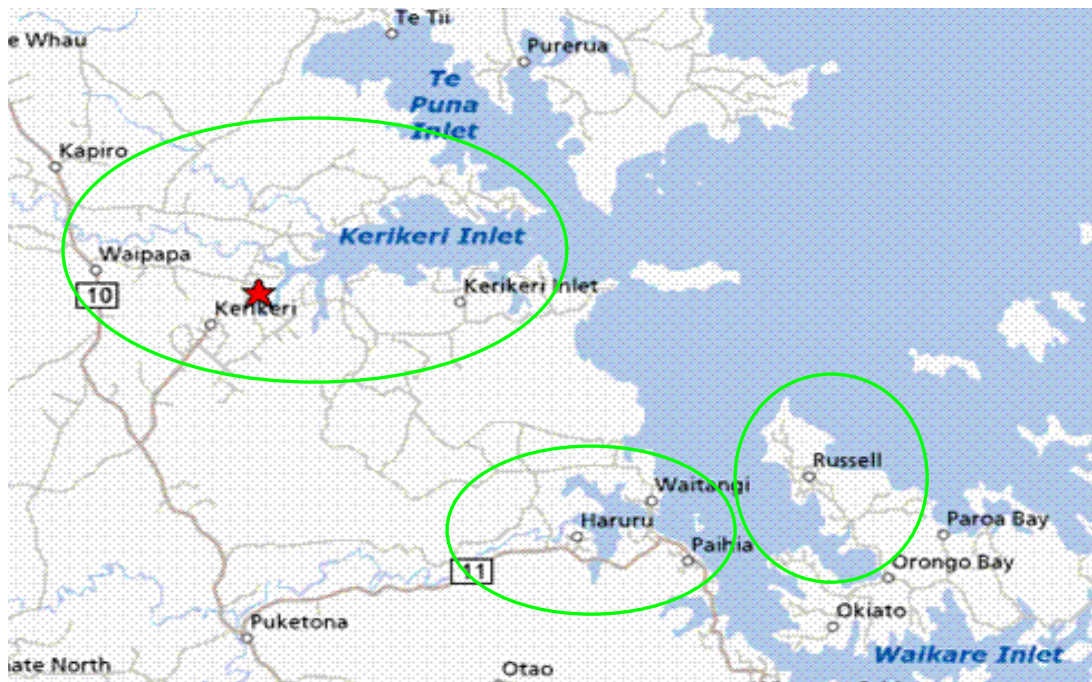


### The flavour of Kerikeri, Paihia and Russell

The Kerikeri-Paihia-Russell area is close to our hearts (i.e. a warm climate and good golf courses). A few months ago we got close to making an offer on a large house on five acres a bit northwest of Kerikeri, so our views on the area are those of converts not doubting Ravers. The house in question was a well constructed, large spec house on an idyllic bit of land, but with an asking price of \$845k we struggled to see the value. Interestingly, the price was subsequently dropped to \$745k “for a quick sale” and it has just sold (we guess for something less than \$745k).

Just as we found in Albany, we found 34 finished spec houses for sale in the Kerikeri area, with prices ranging from \$329k to \$935K (use this link to see the selection of other free property reports on our website - <http://www.sra.co.nz/free.html>). The average asking price for the Kerikeri spec houses was \$617k versus an average price for existing houses of \$436k over the last year (this rings warning bells for us!). In addition, there were 17 houses on the market that were “near-new” or “as-new” (i.e. 6-18 months old) and one spec house under construction being advertised for sale. Yes, Kerikeri has well above average population growth, so 50 or so new or near-new houses will get absorbed relatively quickly, but like the property we looked at, the question will be about the price required to do the deal.

Later in this report we look separately at three sub-areas: Greater Kerikeri, Greater Paihia and Greater Russell (see the three areas highlighted in green in the map below). However, there was one theme evident across the hills, valleys and inlets of Kerikeri-Paihia-Russell.



Source: MapQuest. For a more detailed map click on this link: <http://www.wises.co.nz/#c/2p7vv/76whx/6/>

Our fact finding visit to Kerikeri-Paihia-Russell encouraged us to re-write the old adage of “location, location, location”. On the trip we visited numerous subdivisions, and viewed many one-off sections and mini-subdivisions, and decided that in the context of the local section market the more appropriate saying is “location, fit for the purpose, priced for end-users”. In short, we saw lots of sections in dubious locations, not particularly fit for the purpose and certainly not priced at levels in line with end-user affordability. We also saw some fantastic sections, of the sort that almost had us reaching for our cheque book, but too often the price was “sucker-pitch” material. There were also some reasonably priced sections (i.e. reasonable in the context of generally over-priced market).

As covered in our **Housing Prospects** reports, house and section prices in general still have upside potential before the music stops, but when the music stops some nasty stuff is waiting to come out of the closet. The Kerikeri-Paihia-Russell area is awash with sections in search of homes and too many of them are neither fit for the purpose nor priced within coeey of what end-users will ultimately be willing to pay. When the music stops some of the sections we viewed will only sell if they get dumped in the damaged-goods basket, with the requisite prices to move damaged goods.

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Yes, strong words, but let's look at some extreme examples of what we are talking about. Note that the examples shown below are selected from [www.realestate.co.nz](http://www.realestate.co.nz) and we did not visit these sections in person, so we might be doing some of them an injustice, but they are useful for conveying our message about "location, fit for the purpose, priced for end-users".

Kerikeri: (1) "Seclusion and river frontage. What more could you want? You could build your earthy-alternative style home to blend in with the natural..." [i.e. smoke a bit of wacky-bacy and you will appreciate this one]; (2) "This 7785m2 bare land has beautiful views over a wetland habitat and beyond. Bird life, pond quiet location, close to town." [looks like mosquito breeding grounds, scrub and pine trees to us].



Paihia: (1) "Only 2 minutes drive from the Paihia township, you'll find this beautiful bush clad section of approximately 4 acres. A building site has..." [great views of trees and three zillion screaming cicadas]; (2) "Norwest facing section in central Paihia. Dual access. Build your home on this 915m site. Walking distance to cafe's beaches and shops." [i.e. 10 m<sup>2</sup> of flat land and four zillion screaming cicadas].



Russell: (1) "On offer is unique opportunity to create your dream home nestled into the native bush. Bask in the sun and admire the panoramic sea views." [only \$545k and don't forget to bring your chainsaw]; (2) "A view anyone would envy. The ideal spot for a pole home with big decks so you can catch the sun and views to Waitangi & Kent passage." [asking price \$1,350,000 and you have to supply your own polls].

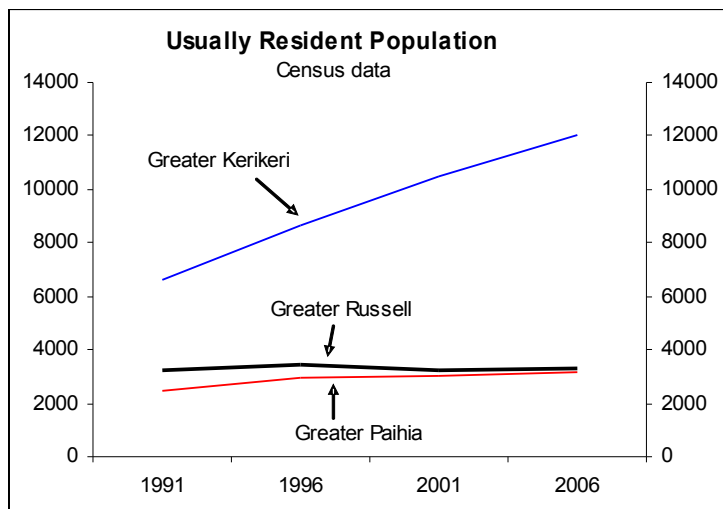


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### The demand-supply balance in Kerikeri-Russell-Paihia

As covered in our **Interesting Times** reports, there is more upside risk to interest rates than most economists are willing to contemplate, even in their nightmares. But interest rates come and go. Of most importance to medium and longer-term housing demand is population growth. And when it comes to population growth Kerikeri leads the pack (see the blue line in the chart below).



Population growth in Greater Kerikeri – including Kerikeri, Kapiro, Waitangi and Waihou Valley-Hupara (see pages 6-7 for the relevant maps) – has averaged 5.5% per annum since 1991 (arithmetic not geometric average for the maths deviants).

It is all about a warm climate, ample land supply and lifestyle. By comparison, population growth in Greater Russell and Greater Paihia has stagnated despite strong tourist growth.

But it is possible to get too much of a good thing. Strong population growth attracts developers like dead livestock attract blowflies, and the developers have been swarming around Kerikeri in recent times.

Based on the Real Estate Institute’s website ([www.realestate.co.nz](http://www.realestate.co.nz)), as at 18 May Kerikeri had 450 ads for dwellings for sales and 448 ads for sections for sale (see the first two columns of numbers in the table below). While there is some double counting in these numbers because of multi-listing, in the case of section ads there tend to be more ads involving more than one section than there is double-counting.

Based on the annual average number of sales through real estate agents over the last ten years it would take around 1.9 years to sell all the dwellings currently advertised for sale in Kerikeri and around 5.3 years to sell all the sections advertised for sale in Kerikeri. As covered in our **Housing Prospect** reports, markets with more than around six months of dwelling sales currently on the market and around a year of sections on the market are categorised as markets with excess supply. This puts Kerikeri, Paihia and Russell in the material oversupply camp.

#### Kerikeri-Paihia-Russell Stock/Sales Ratios

	Number of For Sale Adverts *		Annual average sales #		Number of years to Sell	
	Dwellings	Sections	Dwellings	Sections	Dwellings	Sections
<b>Kerikeri</b>	<b>450</b>	<b>448</b>	<b>234</b>	<b>85</b>	<b>1.9</b>	<b>5.3</b>
Kerikeri Surrounds	29	25				
<b>Paihia &amp; Haruru</b>	<b>186</b>	<b>68</b>	<b>97</b>	<b>24</b>	<b>1.9</b>	<b>2.9</b>
Paihia Surrounds	39	30				
<b>Russell</b>	<b>150</b>	<b>100</b>	<b>40</b>	<b>19</b>	<b>3.7</b>	<b>5.3</b>
Russell Surrounds	24	18				
<b>Total</b>	<b>878</b>	<b>689</b>				

\* Source: [www.realestate.co.nz](http://www.realestate.co.nz), number of ads

# Source: [www.reinz.co.nz](http://www.reinz.co.nz), annual average for the last 10 years

Lifestyle properties with houses attached are included in the dwelling ad numbers in the table, while lifestyle blocks are included in the section ad numbers. This will overstate the degree of oversupply because the sales numbers should not include genuine lifestyle properties/blocks, but the definite is blurred in Kerikeri with real estate agents advertising most of the lifestyle blocks as residential sections. We do not have the lifestyle property and block sales numbers, but if they were included we believe it would make the oversupply situation look less extreme, not eliminate it.

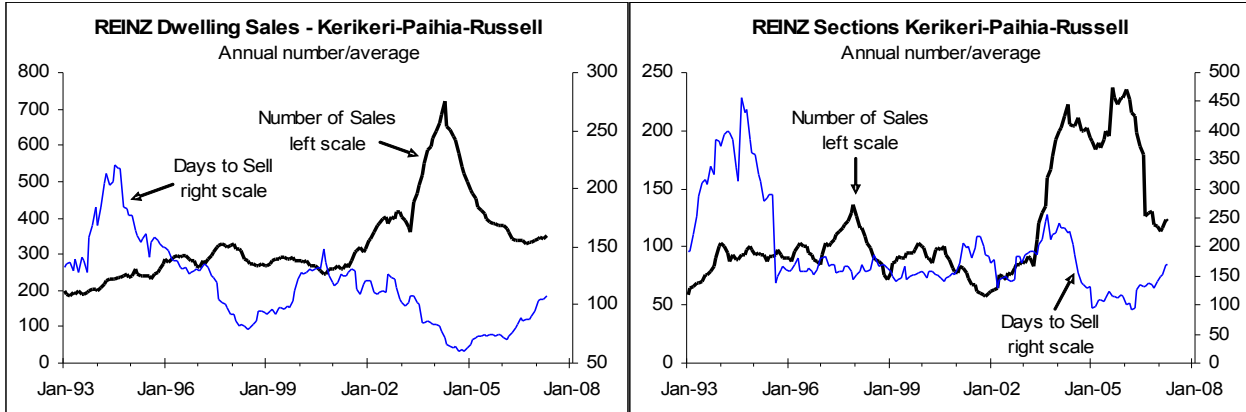
The Kerikeri market in particular has a large lifestyle component, especially on the supply-side of the equation. Of the 448 section ads in Kerikeri 356 were classified as residential sections and 92 as lifestyle blocks. On investigating the ads we found that only 49 of the 356 were genuine urban sections (i.e. of the 500-2,000 m<sup>2</sup> size and adjacent to the current built-up urban area). These 49 sections are mainly in a

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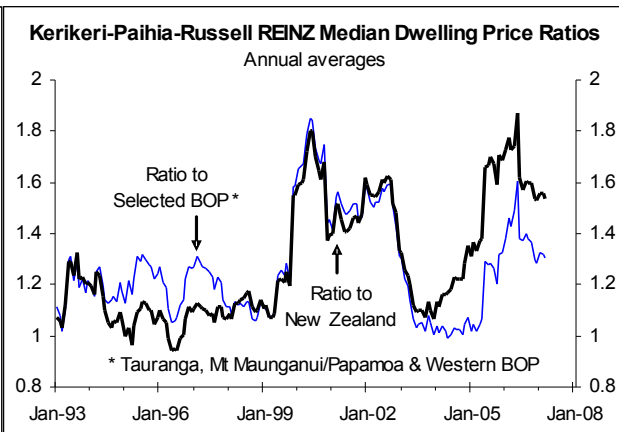
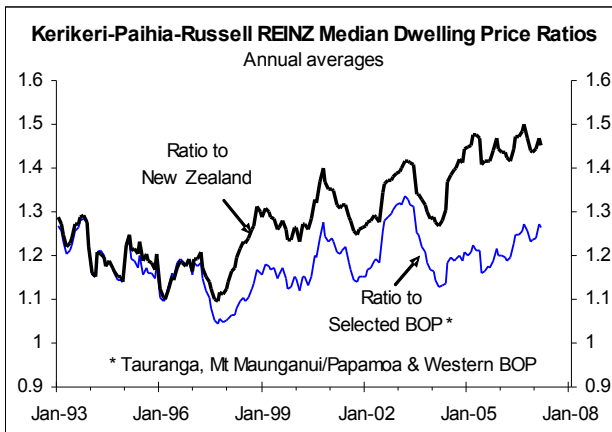
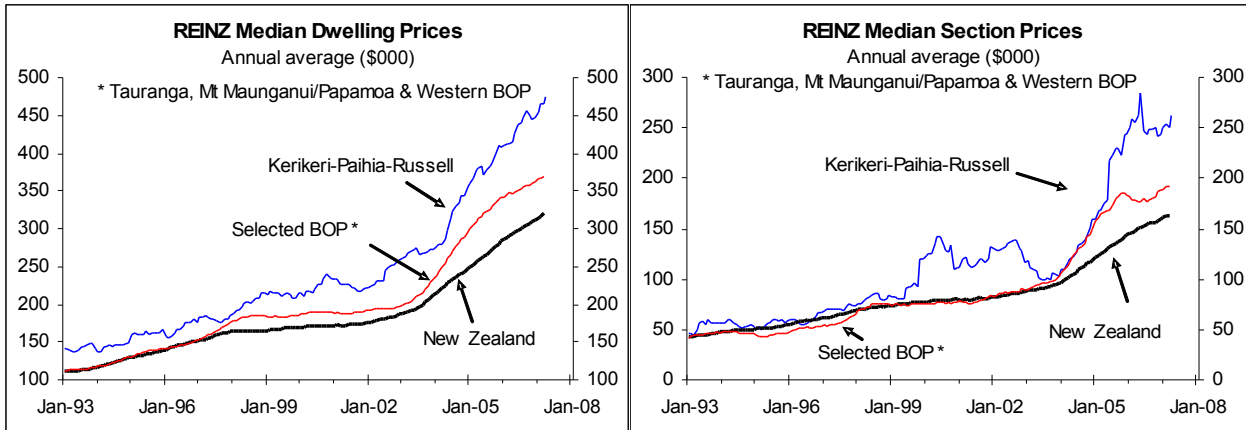


handful of medium-sized subdivisions on the fringe of the current urban area (see the Kerikeri section below), but the remaining 307 of the “residential sections” are really lifestyle sections, some on the fringes of the urban area but generally scattered in small pockets over Greater Kerikeri. It is this lifestyle segment of the local section market where supply is most extreme relative to demand and where we expect the most damage to be done to prices during the next general downturn in the property market.

The boom in both dwelling and section sales in Kerikeri-Paihia-Russell is already over (the black lines next two charts), but sales are still high by pre-boom standards and the average number of days it takes to sell dwellings and sections are still a touch below average. The upside in prices is not over yet.



Median dwelling prices in Kerikeri-Paihia-Russell have always been higher than nationally and than the selected Bay of Plenty area (left chart below). We see the selected BOP area as being the closest competition to Kerikeri for retirees. Relative to the national scene, dwellings in Kerikeri-Paihia-Russell have become increasingly expensive over the last decade, which partly reflects larger section sizes and larger dwellings, but relative to the selected BOP area they are only marginally more expensive than average (the second left chart). The two right charts show a similar story for sections, although sections in Kerikeri-Paihia-Russell look more over-priced on a relative basis than dwellings.



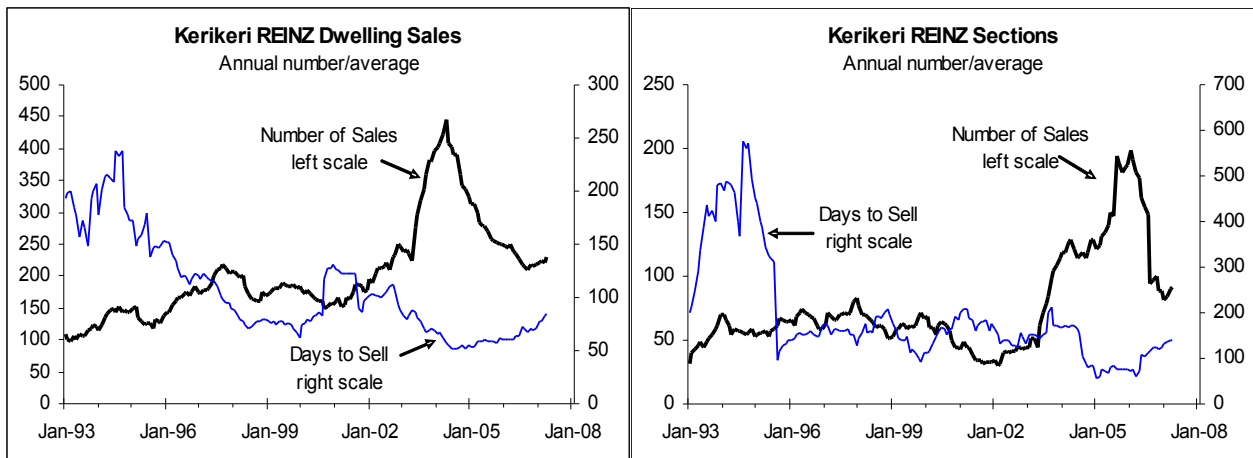
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As covered in our **Housing Prospects** reports, housing affordability has never been more stretched in NZ than it is today, with more stretch to come in many places because demand is still high by pre-boom standards and continues to drive prices higher. However, the affordability grim reaper will not come out to play until investors and spec buyers are burnt off by a combination of higher interest rates and oversupply. But when the grim reaper comes knocking it will be revealed in many parts of the country, and certainly in Kerikeri-Paihia-Russell where affordability is more stretched than the national average, that prices are well above the level genuine buyers can afford and/or are willing to pay (i.e. end-users as opposed to get-rich-quick investors or spec buyers).

**Kerikeri – the data and the definition**

The Kerikeri charts below look much like the charts for the Kerikeri-Paihia-Russell area, which should be no surprise because it dominates the combined market. The boom in both house sales and section sales is over (see the black lines in both charts), but by pre-boom standards demand is still high and properties are still selling relatively quickly. Technically we should probably call it a bubble not a boom, especially in the case of the section market. The distraction being that booms end in “slowdowns”, “corrections” or “soft landings”, while bubbles end in pain – affordability, the grim reaper and all that.



The places REINZ include in their definition of Kerikeri for house and section sales data are: Doves Bay, Kerikeri, Opito Bay - Kerikeri, Rangitane, Reinga Park, Riverview, Skudders Beach, Tapuaetahi, Waipapa. This includes most of the area officially defined as Kerikeri in the Census (left chart below) and the lower reaches of the Kapiro sub-district (right chart, purple highlighted area). But it would not surprise us to find that the REINZ data for Kerikeri covered a wider area than this.

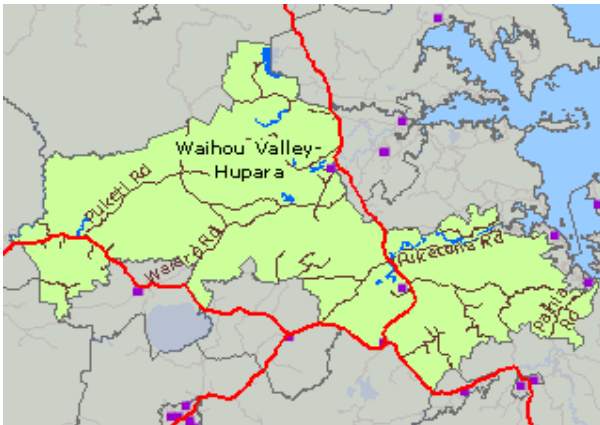


We have done the best we can at untangling the competing definitions for Kerikeri so the data in the table on page 4 are meaningful, but the result is not perfect. The official definition of Kerikeri only covers the area in the left map above, where the usually resident population in the 2006 Census was 5,859 and there were 2,283 private occupied dwellings (data on unoccupied dwellings, which are primarily holiday homes, is not available yet). The Greater Kerikeri definition we used in the population chart on page 4 includes the areas covered in both the maps above and in the top two maps on the next page. The REINZ data for dwellings and sections sales is some blurr between the official and greater definitions of Kerikeri, while dwelling and section for sale ad numbers in the table on page 4 cover Kerikeri and Kerikeri Surrounds.

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As at the 2006 Census the Kapiro sub-district had a usually resident population of 2,445 and 918 occupied private dwellings, the Waihou Valley-Hupara sub-district had 2,952 people and 1,062 dwellings, while the Waitangi sub-district had 795 people and 312 dwellings. Population growth in the Waihou Valley-Hupara sub-district has matched growth in the official definition of Kerikeri between the 2001 and 2006 censuses (20.4% and 20.5%, respectively). This has possibly been aided by the advent of the Watea urban area on the Puketona Road just west of Haruru Falls, although we can't tell for sure whether Watea is part of the Waihou Valley-Hupara sub-district or part of Haruru Falls (see below). Kapiro and Waitangi were part of a combined Waitangi Te Tii sub-district in the 2001 Census and in dividing them there may have been boundary changes so we can't be sure how strong population growth has been in these places.



**Kerikeri township and environs section market fact finding**

On the western fringes of Kerikeri township we found seven new or newish subdivisions (Meadows, Riverbank Estate, Access Heights, Greenways Estate, The Ridge, Aranga Road, Greenways Estate and Ranui Gardens). We counted 166 empty sections in these subdivisions, some of which had already sold but had not been built on yet, only a few sections for sale on the secondary market (very different to what we find in most coastal subdivisions markets which are overrun with get-rich-quick investors), and seven spec houses for sale. In some of these subdivisions few sections had sold, this was especially the case with the subdivisions that were more lifestylish and more expensive. By comparison, the more established Aranga Road and Ranui Gardens subdivisions, that were closer to town and had traditional residential sections, many sections had sold, although there were still quite a few to sell.

On the eastern fringes of town and out towards the inlet on the southern side we found six subdivisions (Alberton Park, Pickmere Lane, Kotare Estate, The Moorings, Heron Hill and Reinga Heights), although it is popular on this side of town to carve up small blocks of land into 3-6 sections and we did not count these. In the six subdivisions we found 92 empty sections, again some of these had sold but had not been built on yet, while we found another six spec houses for sale. Quite a few of the 34 spec houses we found for sale in Kerikeri were on lifestyle blocks.

Provided Kerikeri's population keeps growing at the same rate as it did over the last five years it needs around 74 new sections per annum. In that context, the 258 empty sections we found in the subdivisions we counted equate to around 3.5 years of demand, which represents a near-term oversupply but not a medium-term oversupply. However we have a couple of "buts" to throw in: (1) these numbers do not take into account the numerous lifestyle sections also on the market on the fringes of Kerikeri, while some of the subdivisions we covered are pseudo-lifestyle subdivisions and we believe this is the part of the market where there is the risk of massive oversupply; and (2) with national population growth slowing and Kerikeri relatively expensive on the national scale we can see a case for slower local population growth over the next few years, implying that it will take more than 3.5 years to absorb the current stock of residential sections available to be built on.

**Paihia is trying to do its bit to keep up with Kerikeri**

The new development story at Paihia is mainly about apartments, mainly of the buy to rent to tourists variety. On [www.realestate.co.nz](http://www.realestate.co.nz) we found 40 ads for apartments for sale, eight of which were still on the drawing board and six we still under construction. The majority of the apartments advertised for sale are secondary market sales. In addition, while in town we observed two new apartment complexes in the early stages of construction which will probably add 40 or so new apartments to the market, but for which we have no sales information.

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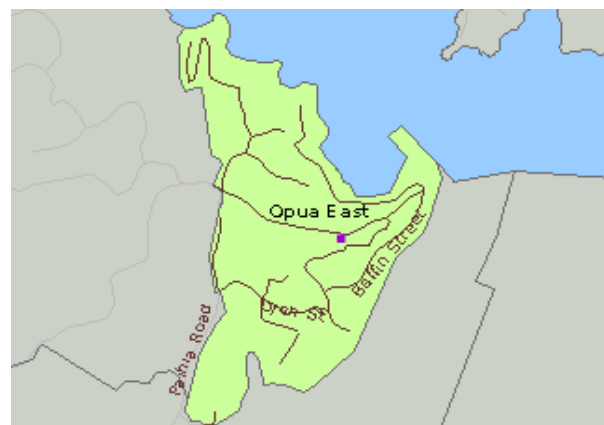
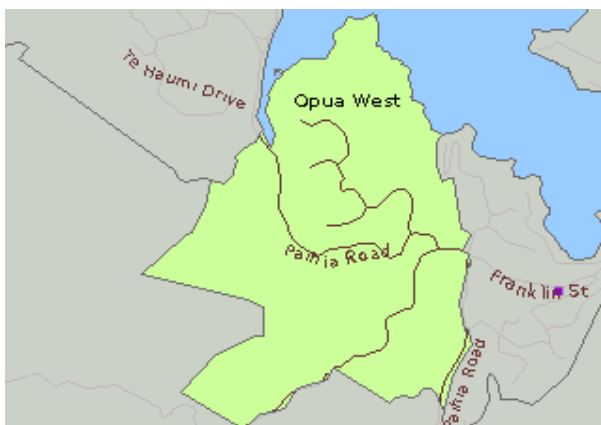
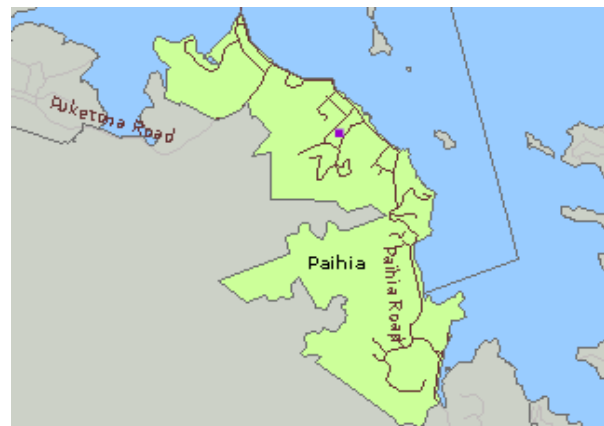


The most telling statistic from the apartments advertised for sale on [www.realestate.co.nz](http://www.realestate.co.nz) was that the apartments being advertised had on average been on the market for sale for 357 days. While we are not talking about thousands of apartments in search of homes, this tells us that there are quite a few more vendors than interested buyers, implying potential downside risk for prices.

Greater Paihia includes the Haruru Falls area (789 usual residents and 324 private occupied houses in the 2006 Census, Paihia proper (1,777 people and 882 dwellings), Opua West (258 and 117) and Opua East (354 and 168). Greater Paihia's population growth was only 5.7% between 2001 and 2006, but it is experiencing a reasonably significant amount of subdivision activity for a place with such low population growth.

The new subdivisions are mainly on the north-western side of town, around Haruru Falls and just west of there at a new village or township call Watea. Watea appears to be offering more affordable housing options than living in Paihia proper and has major earthworks underway (we guess this might add something like another 60 or so sections).

Based on the three new subdivisions around the Haruru Falls area and the empty sections in Watea, there are currently 65 sections available to build on, which based on past population growth will be sufficient to cater for several years of demand. Eight of the sections were for sale on the secondary market, suggesting some investor involvement but the market is certainly not infested with get-rich-quick investors. Paihia had only a handful of finished spec houses for sale and several spec houses under construction, including a townhouse development, although there were also seven near new houses for sale at Watea. All up the Paihia market is not swamped with new sections, but it has plenty of supply to meet any growth in population there might be over the next several years and beyond once the new stage being developed at Watea is taken into account.



**Russell has its own version of spec subdivisions**

Even in sleepy, but picturesque Russell we found four spec houses and several small subdivisions and a holiday/resort subdivision of around 30 sections that looked decidedly out of place and not in favour with buyers. Russell's usually resident population grew from 801 in 2001 to 819 in the 2006 Census, a total of 2.2%. The Pokere-Waihaha sub-district to the south of Russell (see the maps on the next page) experienced only 1.6% population growth over the same period, taking the population to 2,493.

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With limited population growth historically and no reason we could see for this to change in the future, we expect Russell to take some years to absorb the number of sections currently available on the market. Although, as it the case in the Kerikeri-Paihia-Russell sub-region in general, some of the sections are simply not fit for the purpose and we expect these ones to take forever and a day to sell (provided the often speculative prices get slashed), while the sections that better match demand (i.e. location, size of land and price) will get absorb with population growth.

