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PROPERTY INSIGHTS

Mangawhai Heads & Village Section Market Update

EXECUTIVE SUMMARY

A field trip to the Mangawhai Heads & Village area combined with our analysis of section-for-sale ads on the Real Estate Institute's website leads us to conclude that the market is swamped with supply. Our field trip revealed the major role investors have played in the market, but now investors are competing with developers as they try and exit the market. Compared to normal or sustainable demand by end-users for sections in the Mangawhai area, we assess that there is currently over 10 years of supply being advertised for sale.

The obvious implication is that the oversupply will weigh on prices, especially because the large rise in prices over the last several years has materially reduced the number of people who can afford holiday sections/homes. Then there is the negative impact to come for holiday section/home demand from higher interest rates, with the analysis supporting this prognosis being in our pay-to-view **Interesting Times** service.

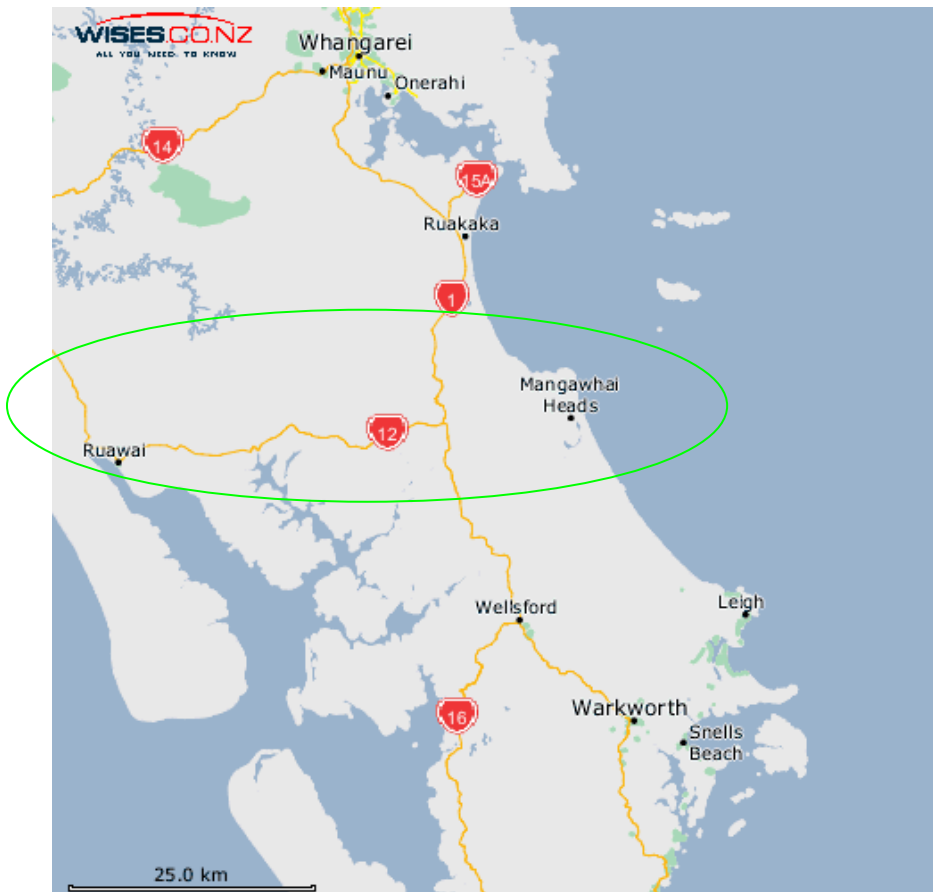
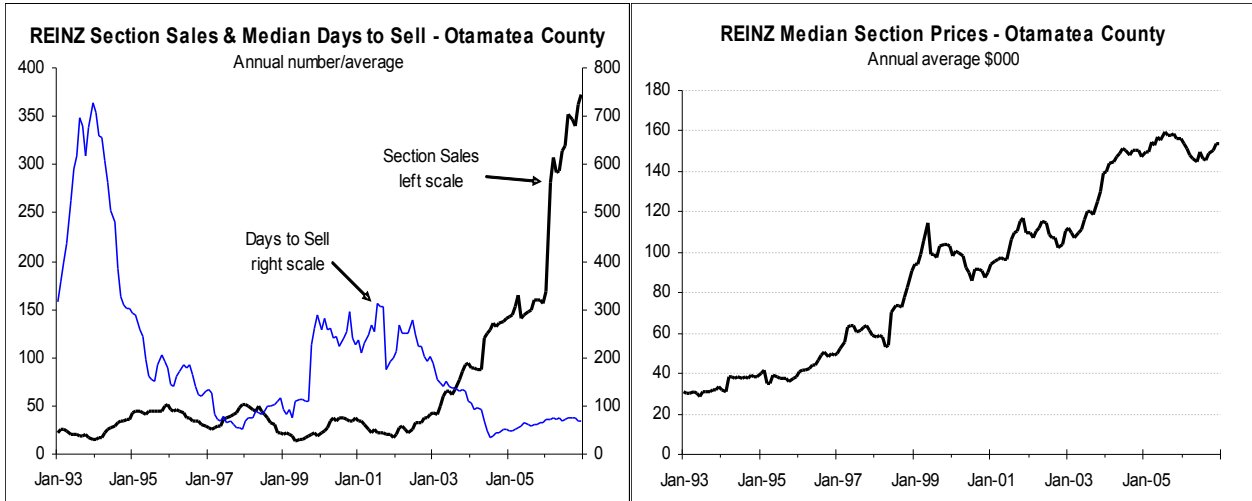


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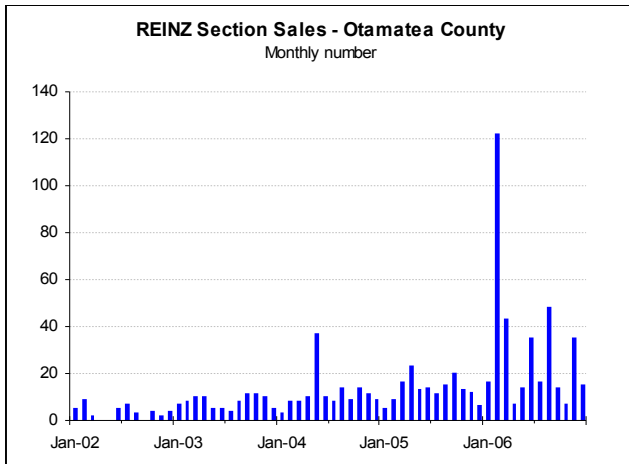
An avalanche of sections at Mangawhai Heads & Village

In 2006 section sales in the Otamatea District exploded (the black line in the left chart). Otamatea is dominated by Mangawhai Heads and Mangawhai Village but also includes Kaiwaka, Maungaturoto, Molesworth, Paparoa, Ruawai, Tinopai and Waiotira (roughly the green highlighted area in the map). Despite this apparent sky-rocketing of demand for sections, the annual average median section price in Otamatea in 2006 was below the peak reached in mid-2005 (the right chart). So what is going on?



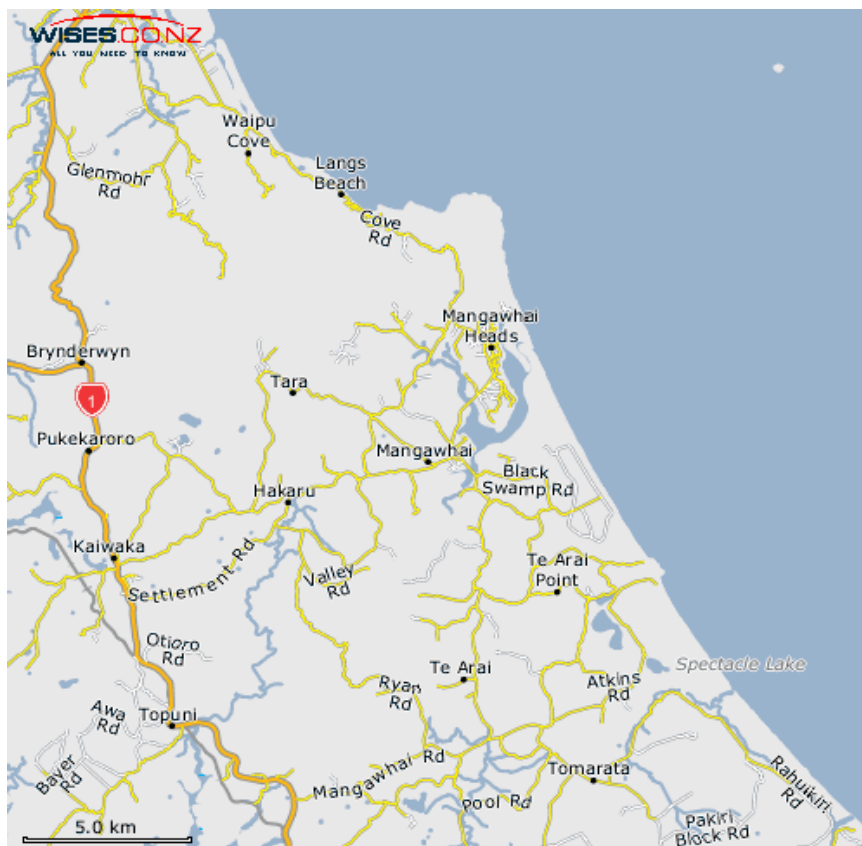
In free markets prices are all about demand and supply. When demand exceeds supply prices are supposed to go up. So the lack of action on the section price front in Otamatea over the last couple of years hints that the surge in section sales is not an indication that demand has sky-rocketed relative to supply. Our visit to Mangawhai yesterday, during which we inspected 20 subdivisions, and our search of REINZ's website investigating the stock of sections for sale in the area, got to the bottom of the story.

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122 section sales in Otamatea in February last year played a major part in boosting the annual sales figure to just over 350, while sales in four other months last year were well above historical levels. These spikes in sales reflect large blocks of sections being settled in new subdivisions rather than being a product of many eager buyers suddenly hitting town. In many cases the buyers will have signed up 12-24 months earlier, so the spikes in the monthly sales figures reflect the timing of supply increases more than surges in demand. This is consistent with the lack of action on the section price front over the last couple of years (i.e. supply is at least matching demand).

The map below shows Mangawhai Heads (a semi-coastal location) and Mangawhai Village (Mangawhai on the map – an inland location). The subdivisions we inspected at the Heads were Bream Tail, The Sanctuary, Mangawhai Heights, Parklands, The Sands, Pearl Street, The Heads, Devon Road, Taranga, Sea Breeze, Norfolk Rise, Nautical Heights and Moir Point Park. The subdivisions we inspect at the Village were Sunlea, Vista Verana, Long View, Dune View, Heron’s Keep, The Anchorage and Mangawhai Developments’ lifestyle subdivision just west of town.



Most of the subdivisions we visited are titled and some already have quite a few holiday homes built on them, while some are pre-title but with earthworks at various stages of completion, while only one is at the pre-sales and pre-earthworks stage. We can supply the details all the subdivisions at a modest fee if anyone is interested.

These subdivisions are adding just over 1,300 sections to the Mangawhai Heads & Village area, which represents around a 100% increase in supply. Interestingly, our search of www.realestate.co.nz, the Real Estate Institute’s website, revealed around 450 residential sections and 150 lifestyle blocks currently for sale in the area (see the Appendix for details). Over half of the sections for sale are from the primary

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market (i.e. developers selling multiple sections in new subdivisions), but a significant number reflect investors trying to sell the sections they recently acquired from developers.

To put the number of sections currently for sale in historical perspective, prior to the boom in new subdivision activity the annual average number of sections sold in the area was just under 40. So the current stock of sections advertised for sale equates to around 11 years of demonstrated historical demand for sections by end-users in the area, and 15 years if the lifestyle blocks are included.

The optimists will quickly respond that the area has only recently been discovered, while the new subdivisions will create their own demand (i.e. build the roads and the cars will come). Our response is that this area is now competing with increased supply of coastal (or near-coastal) sections all over the place, while section prices are now over double what they used to be. The massive increase in section prices in recent years has greatly outstripped growth in income levels, which should ring warning bells about how many people can now afford the sections. When all the arguments are considered, we stick by our conclusion that there is a major oversupply of sections in the Mangawhai market at the moment relative to sustainable end-user demand, with the oversupply likely to weigh on prices.

Our field trip revealed some interesting insights. For five of the 20 subdivisions we visited we were able to calculate the percentage of the sections sold by the developer that are currently back on the market for resale, which ranged from 22% to 68%, with an average of 43%. This gives an indication of the extent of investor involvement in the market and reinforces our concern about both the extent to which section prices have been boosted by get-rich-quick investors and the downside risk to section prices when the get-rich-quick train leaves town and the only people the investors and developers are able to sell to are genuine holiday home owners.

Most section-for-sale ads still have asking prices above the original prices the developers sold the sections. However, we calculated that in some cases after allowing for holding costs etc the asking prices were a touch underwater already. Of course, the flock of investors will only keep coming to town if there are plenty of stories about people making an easy \$30-40k per section, which was the case for a couple of years, but without the lure of quick capital gains who will come to town to bail out the investors trying to exit?!

Our excursion to Mangawhai also revealed 23 spec houses for sale in the subdivisions we visited and four for rent signs (definitely a thing of the future as some heavily geared owners try to extract cashflow from their underperforming investments). And if capital gains are a thing of the past more people will decide it is more economic to rent for their coastal holidays than buy, which will undermine future section and coastal property demand in addition to the barrier of high prices.

Appendix

Mangawhai Heads had 121 section-for-sale ads on www.realestate.co.nz and 10 lifestyle section ads. Eleven of the section ads were for multiple sections totalling around 80 sections. So the ads equated to approximately 190 sections for sale and 10 lifestyle blocks for sale. Our assessment of the Mangawhai ads revealed approximately 260 residential sections for sale and 138 lifestyle blocks. This gave a combined total of around 450 sections for sale and 150 lifestyle blocks. Our field trip revealed that only a modest number of sections for sale were listed by more than one agent, so the amount of double counting in these numbers will be modest.