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PROPERTY INSIGHTS

The Whangarei Northern Beaches

EXECUTIVE SUMMARY

The Whangarei Northern Beaches offer some idyllic holiday spots that cater for a range of interests (e.g. Matapouri has a great beach for younger and older children; Tutukaka is ideal for deep sea fishing buffs who have a few pennies to rub together; Ocean Beach, near the southern end of paradise, is for surfers; Teal Bay, near Helena Bay, is the Hahei of the north; while places like Oakura, at the northern end of the green highlighted area in the map, and Whananaki offer escapes from urban madness). A number of these areas, and especially the likes of Ngunguru, are also commuter belt for Whangarei City.

However, on our fact finding visit to the Whangarei North Beaches we picked up a malaise that suggests even in this little bit of paradise something of an imbalance has developed between supply and demand. Or, more particularly, there is a near-term oversupply at current prices.



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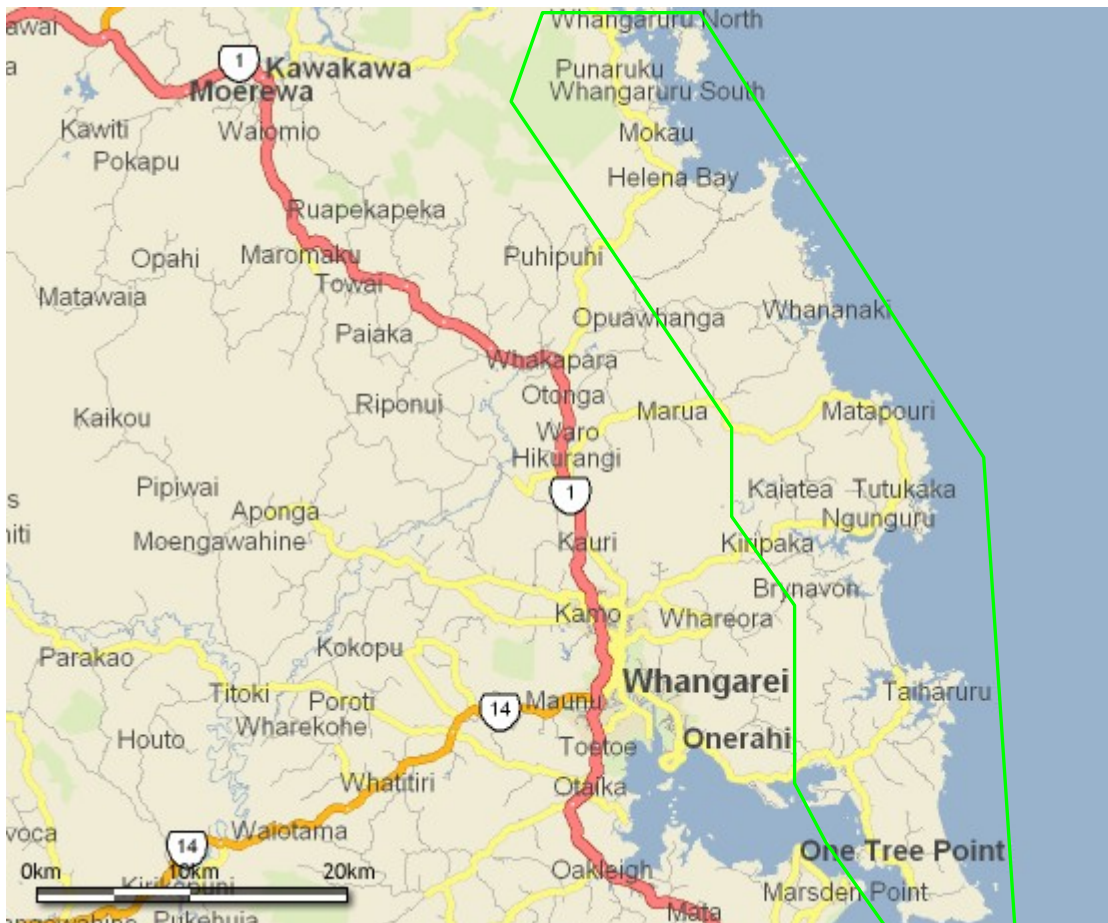


In praise of the Whangarei Northern Beaches

The Whangarei Northern Beaches offer some idyllic holiday spots that cater for a range of interests (e.g. Matapouri has a great beach for younger and older children; Tutukaka is ideal for deep sea fishing buffs who have a few pennies to rub together; Ocean Beach, near the southern end of paradise, is for surfers; Teal Bay, near Helena Bay, is the Hahei of the north; while places like Oakura, at the northern end of the green highlighted area in the map, and Whananaki offer escapes from urban madness). A number of these areas, and especially the likes of Ngunguru, are also commuter belt for Whangarei City.

It should be no wonder that many Whangarei-ites opt for beach homes on their doorstep rather than heading to the Far North. As a contact in the banking industry in Northland put it: "Property sales the further north you go get quieter and quieter. Perhaps they should all subscribe to your Ravings to find out why!!!" Unlike the Far North and the likes of Mangawhai and One Tree Point, all of which are swimming in new supply – visit our website to see the respective reports: <http://www.sra.co.nz/free.html> - geography probably as much as anything has meant much more modest increases in supply in the Northern Beaches. They have largely, but not completely, escaped the developer-investor-driven subdivision craze that has run wild in parts of Northland over the past several years.

However, on our fact finding visit to the Whangarei North Beaches we picked up a malaise that suggests even in this little bit of paradise something of an imbalance has developed between supply and demand. Or, more particularly, there is a near-term oversupply at current prices. See the last section in this report for some details on this.



Ultimately it will come down to affordability

Because there has not been massive new subdivision activity in the Whangarei Northern Beaches we believe the best way to view prospects in this area is to consider it in the context of the general cycles unfolding in the house and section markets, which raises issues like what will happen to interest rates and how many people can afford coastal houses and sections at current prices, especially as would-be holiday home owners now have to pay huge prices for their primary residence – see our last **Property Insights**

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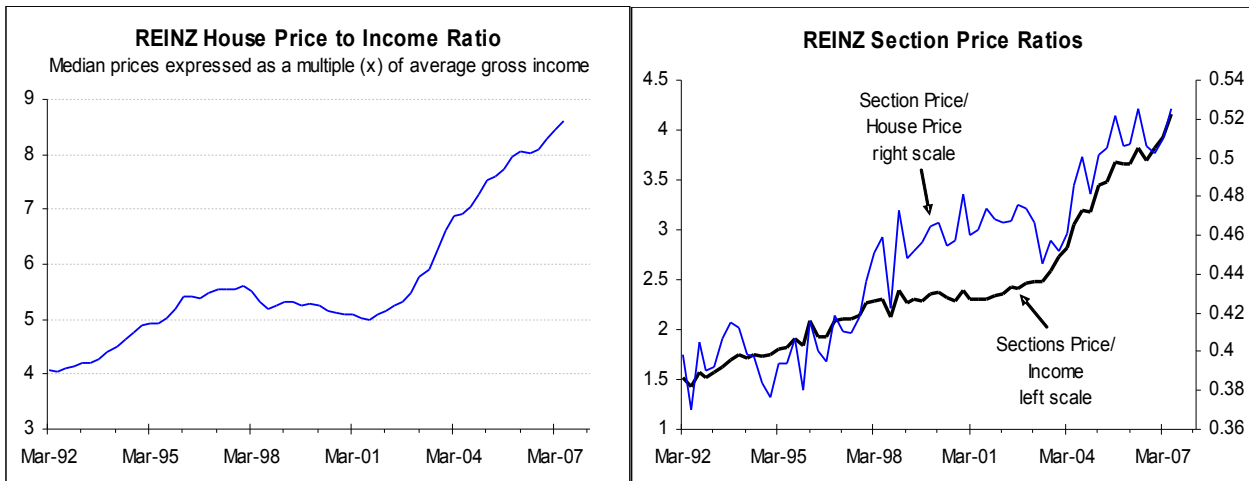


report for a discussion of this and related issues: “Coastal Update – Whangarei Country, Coromandel and Western Bay of Plenty”, <http://www.sra.co.nz/pdf/Coastalupdate26June07.pdf>.

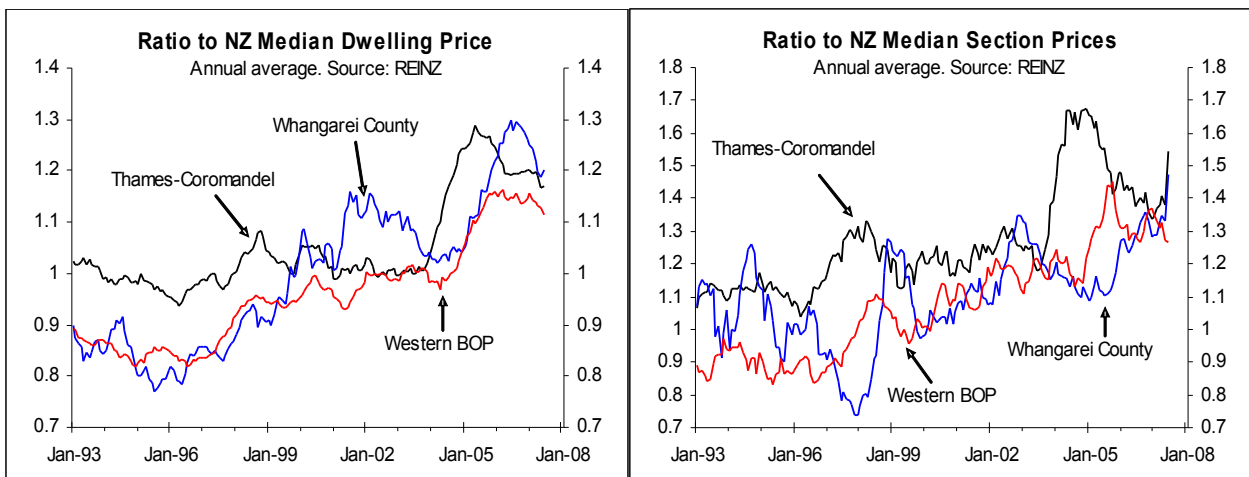
Unfortunately, the REINZ data we can access from www.reinz.co.nz incorporates the Northern Beaches area with the Southern Beaches and the lifestyle areas on the fringes of Whangarei City. Consequently, the data analysis in the following charts is for the whole Whangarei Country, which is not ideal but still provides some insights that are directly relevant to the Northern Beaches.

Whangarei County includes the following places based on the REINZ classification, with those in bold being the ones included in our definition of the Northern Beaches: Glenbervie, Hikurangi, Kauri, Langs Beach, **Matapouri**, Maungatapere, **McLeod Bay**, **Ngunguru**, Oakleigh, One Tree Point, Pakotai, **Parua Bay**, **Pataua**, Pihawai, Portland, Ruakaka, Ruatangata, Springfield - Whangarei District, Tamaterau, Tangiteroria, **Tutukaka**, Waiotu, Waipu, **Whananaki**, Whangarei Area, **Whangarei Heads**, **Whangaruru**, Whareora.

What we know about the national house and sections markets is that prices are extremely stretched relative to income levels. The two charts below come from our monthly **Housing Prospects** reports. The left chart shows that the national median house price is extremely stretched relative to income levels while the right chart shows that the national median section prices is both stretched relative to income levels (the black line) and high relative to house prices (the blue line). The risk that the national median house and section prices will fall during the next downturn are much higher than in recent downturns.



The left chart below shows the median house price for Whangarei County, Thames-Coromandel and the Western Bay of Plenty as ratios to the national median house prices, while the right chart shows the median section prices in these places relative to the national median. The popularity of these coastal areas during the boom (or speculative bubble) means prices in these areas are now high relative to national average prices, at a time when national average prices are extremely stretched and face significant downside risk during the next downturn. Some will argue that this reflects a permanent re-rating of coastal property prices, but history suggests that when the downturn arrives demand will fall more in such coastal areas than in the major urban markets.



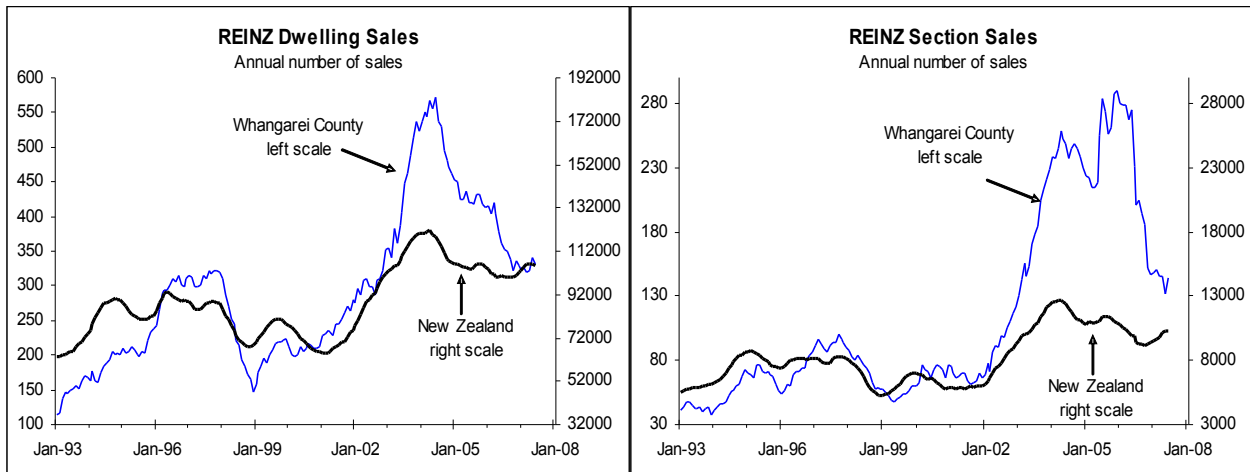
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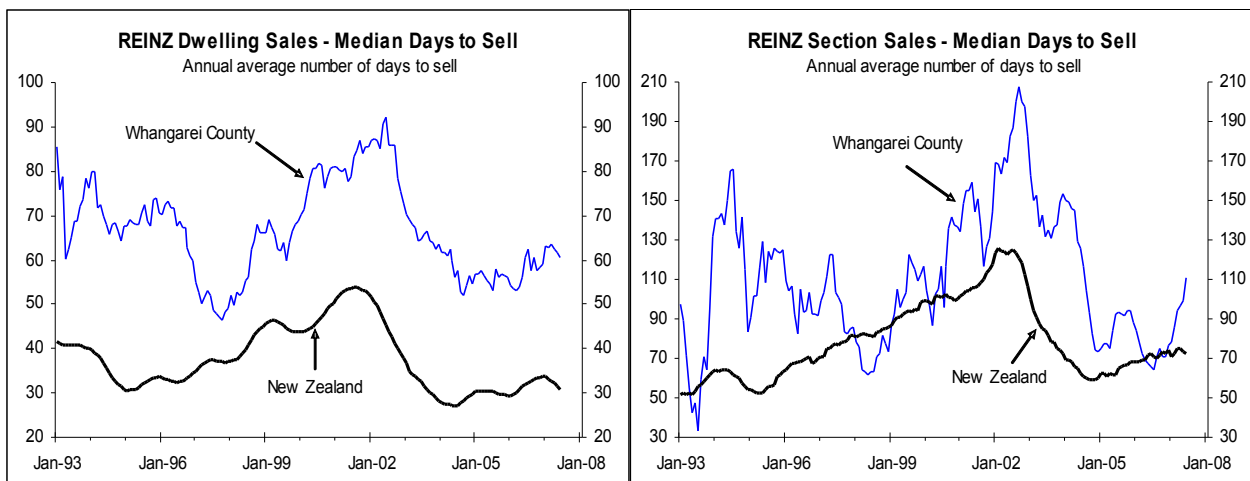
As covered in our **Interesting Times** and **Monetary Policy Briefing** reports, which are must haves for anyone serious about understanding the outlook for interest rates, Alan Bollard might think he is done hiking the OCR but he is not. The unique insights into inflation risks contained in these reports would make all but the staunchest of real estate agents' eyes weep, while the recent feedback we have from a range of contacts in the industry suggest the latest round of interest rates are starting to bite quite deeply into demand for property.

The left chart shows that house sales in Whangarei County rose more than the national experience during the last strong market in the mid-1990s but then fell more than the national fall during the last downturn in 1998. The out-performance of house sales in Whangarei County during the latest boom has been even more spectacular, but sales have already fallen massively relative to nationally and we expect a period of significant under-performance to unfold over the next few years.

The right chart shows that section sales in Whangarei County somewhat outperformed the national experience during the boom in the mid-1990s and somewhat under-performed during the 1999 downturn. However, the out-performance from 2002 to now has been spectacular. This out-performance can be partly explained by strong population growth in Whangarei County (see the next page), but it looks more like a speculative bubble to us than a trend increase in demand driven by stronger population growth.



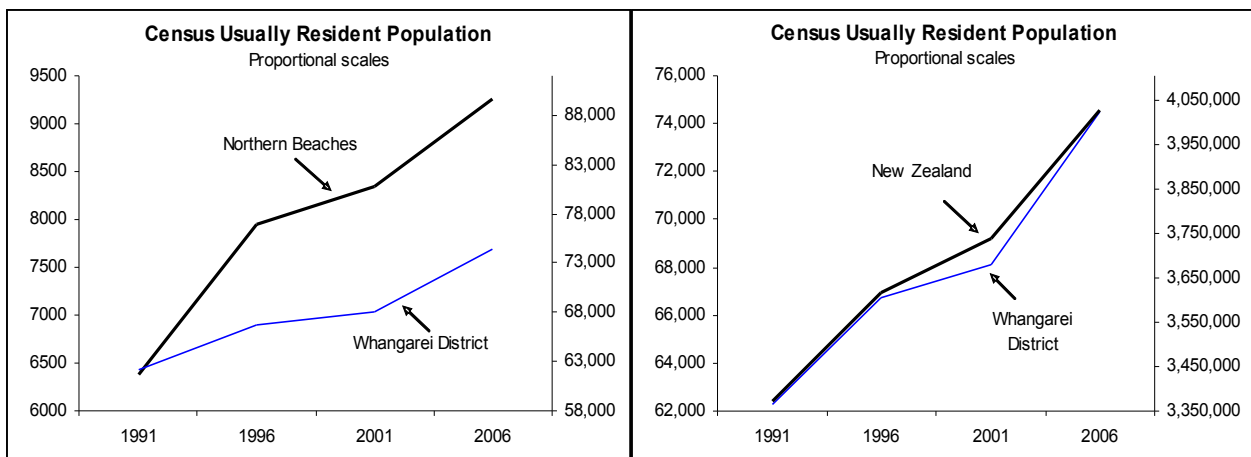
The trouble that would-be vendors will face in the likes of Whangarei County is that when a downturn arrives turnover rates for both dwellings (left chart) and sections (right chart) slow materially. In the case of dwelling sales, the average number of days to sell properties in Whangarei County has always been well above the national average (the left chart below), but during a downturn it can take as much as 90 days on average to sell properties. In the case of sections, the right chart, in a downturn it can take up to 200 days on average to sell in Whangarei County versus a peak of around 130 days nationally. A general downturn in demand will pose material risk to prices in places that have experienced in investor-driven, massive increase in supply. Again, this is not the case in the Whangarei Northern Beaches, but even these great beach areas still have to face the affordability hurdle.





Part of the story for the Northern Beaches, especially for the likes of Parua Bay, McLeods Bay and Ngunguru is being commuter belt for Whangarei City. The left chart below shows how much population growth in the Whangarei Northern Beaches (black line, left scale) has outstripped population growth in the Whangarei District (blue line, right scale) since 1991, although the real out-performance was between 1991 and 1996. Between 2001 and 2006 they have both experience similar rates of population growth, while population growth in the Whangarei District generally runs in line with national population growth (the right chart below).

As covered in our **Housing Prospects** and **Building Barometer** reports, NZ has entered a period of lower population growth than experienced over the last five years. The below average population growth is likely to continue for at least the next couple of years. This implies below average population growth for both Whangarei City and the Northern Beaches, and at a time when higher interest rates and extremely stretched affordability pose a risk to demand and prices.



Summary of fact finding visit

This section supplies a summary of the insights we gained from our fact finding in the Whangarei Northern Beaches. The most noticeable feature was that many of the reasonably new subdivisions still have plenty of sections to sell on the primary market. This was especially the case for the subdivisions that were holiday destinations, but subdivisions in the commuter belt were not immune to this. This implies that supply exceeds demand at current prices, with the emphasis on at current prices.

The subdivisions we inspected between Onerahi and Whangarei Heads include: **Tropicana** (this subdivision is genuine commuter belt and has come about due to the conversion of Tropicana Motel and camping grounds, most of the 29 section are still advertised for sale on the primary market); **Sanctuary Park** and **Harbour View Heights** (older subdivisions next door to Tropicana with a couple of sections for sale on the secondary market); Parua Bay Estate/The Palms (a majority of the 46 sections are still advertised for sale on the primary market and a few are for sale on the secondary market); and Sunset Heights (only three of the 34 sections are advertised for sale on the primary market but limited building activity). Pataua South, north of Whangarei Heads, offers **Beach Estate 270**, this is going through resource consent and proposed construction will hopefully get underway in December 2007. The first stage is for 36 elevated sections, large lots, all with beach access.

The subdivisions we inspected in the Ngunguru area were: **Waterfront Ngunguru** (another conversion from a holiday park, 5 of the 10 sections have been sold but as yet no building activity); **Manawa Drive** (42 sections sold originally Easter 2004 for \$135,000, there are now 10 houses built, two under construction, one house for sale and one section on the secondary market); **Te Maika** (a gated subdivision of around six lifestyle blocks, with a couple for sale probably on the primary market but possibly on the secondary market); adjacent to **Te Maika** (earthworks are well underway and it could involve around 30 sections based on a sign that used to front the site a year or so ago); and **Ngunguru Sandspit** (a proposed subdivision of "350 residential lots" which has met with a large amount of opposition still in the planning/consultation stages).

The subdivisions we inspected in the Tutukaka area were: **Pacific Bay** (subdivision of 17 sections with 12 still advertised for sale on the primary market); **Ocean View** (subdivision of around 6 section, still two on the primary market); in Whangaumu Bay there are two subdivisions (at the north end is a 30 section subdivision with two sections advertised on the secondary market, four houses built and four under

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construction/earthworks underway; at the south end is a nine lot subdivision what had four advertised for sale on the primary market); **Marina Vista** (an established gated development with two sections for sale on the secondary market and a spec home for sale); **The Anchorage** (a gated subdivision for which we gathered no information); **Marina Village** (a proposed luxury village of 30 “reasonably priced” townhouses); and **Middle Gable** (a lifestyle development on the north side of Tutukaka offering five blocks for sale on the primary market).

The subdivisions we inspected further north were: **Whananaki Estate** in Whananaki North (earthworks underway on this 26 section subdivision); and **Oakura Bay** in Oakura (a subdivision of 50 lots, 23 still advertised for sale on the primary market, five not available for sale, four houses built and two under construction).