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## **PROPERTY INSIGHTS**

### **FREE Sample Report**

#### One Tree Point and Ruakaka Section Market Update

#### **EXECUTIVE SUMMARY**

A field trip to the One Tree Point-Ruakaka area (near the Marsden Point oil refinery and the Port of Northland) revealed just under 700 sections either recently developed or in the process of being developed, and around 1,600 additional sections being planned for the area. In our assessment the 700 sections on their own should be sufficient to cater for a decade or more of end-user demand. We expect the development of many of the planned 1,600 additional sections to be delayed once the developers realize the extent of the oversupply of sections relative to end-user demand.

Only two of the eight subdivisions we inspected had been titled long enough to assess end-user demand relative to get-rich-quick investor demand. In these two subdivisions we found a significant number of investors trying to extract themselves and a significant number of spec houses in search of owners. There are several industrial or commercial developments either underway or planned for the area that will create jobs and add to housing demand, like industrial parks, and there is a case for arguing that this part of Northland is only starting to be discovered by retirees and would-be holiday home owners. However, we conclude that the One Tree Point-Ruakaka area faces a material overhang of supply of new sections, with downside risk to prices.

In rational markets end-user demand interacts with supply and the balance between them determines prices, although generally with a bit of a lag in property markets. However, during booms of the speculative bubble variety investor/speculator demand, which is for the most part transitory (i.e. only lasting while there is a quick killing to be made), can swamp end-user demand and stimulate massive supply increases. The supply increases seem justified by demand at the time, but can look ludicrous when the transitory-investor demand inevitably dries up. But when the get-rich-quick investor train leaves town, how much do prices have to fall until they reach the level justified by the combination of end-user demand and the massive increase in supply? This is the question facing developers and investors in the One Tree Point-Ruakaka area. And we suspect they will not like the answer.



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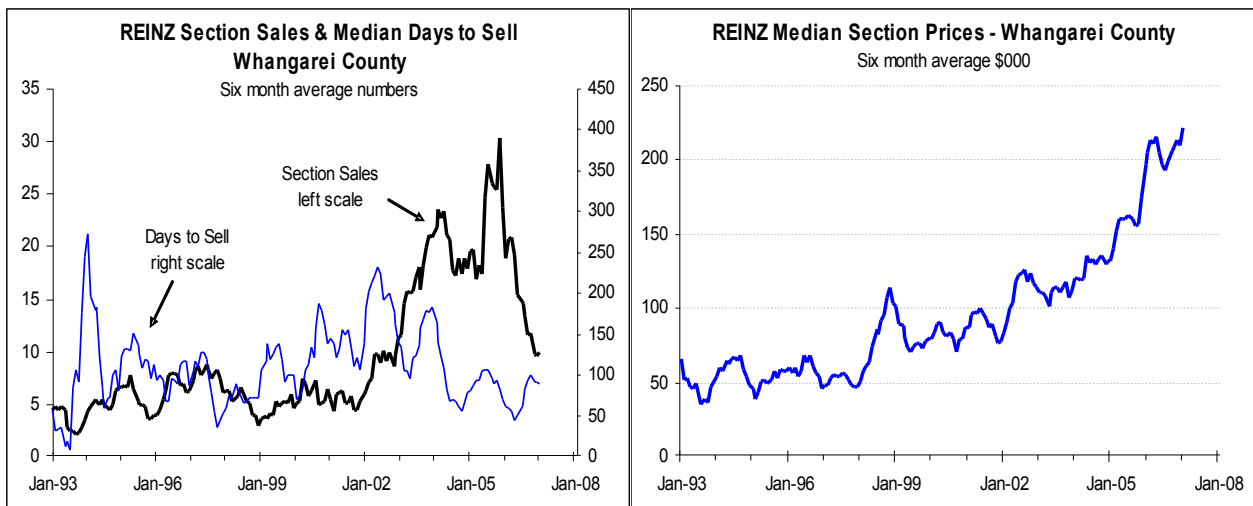
**The interaction between demand and supply in the Whangarei County section market**

The black line in the left chart shows the monthly number of section sales reported by REINZ for Whangarei County, a rolling six-month average of the monthly number is used to smooth volatility in the monthly numbers (the Appendix has a list of the places in the County). In the worst six-month period prior to 2002 two sections were sold per month, while in the best six-month period nine sections were sold per month. In the worst six-month period since 2002 six sections were sold per month, while in the best six-month period 30 sections were sold per month (230% higher than the best six-month period prior to 2002).

The left chart for Whangarei County gives a general indication of what has also transpired in the One Tree Point-Ruakaka area, which is the focus of this report (REINZ's website does not supply a finer breakdown of data than for Whangarei County). See the map on the next page: One Tree Point is to the right of Marsden Bay on the map, while we consider Ruakaka to include Ruakaka and Marsden Point on the map.

Improved roads between Auckland and One Tree Point-Ruakaka can justify increased interest in the area, but our research on the area has revealed that a significant part of the increase in sales has been due to both investor involvement in the market and major subdivision activity in part justified by investor demand.

Median section prices in Whangarei Country – again being used as a proxy for One Tree Point-Ruakaka - have risen strongly since 2002 (the right chart), so clearly there was a surge in demand behind the Mt Everest-style peak in section sales. And any developer who responded to that demand by subdividing more sections should be congratulated (especially if they don't have any or many sections left to sell now!). But how much of the demand has come from end-users who will build a permanent or holiday home on the sections, even if not for some time (i.e. when they retire), and how much is from investors?



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The optimists argue that this part of the world has only just been discovered, while some of the new subdivisions have novel features (e.g. an up market marina, a nine hole par 3 golf course), and this will stimulate higher ongoing demand. The development of industrial parks in the area is also underway and will add to housing demand, while there are plans for forest processing plants and a major retail centre (see <http://www.northgate.co.nz/downloads/OTP%20-%20Zone%20Map.pdf>). One local contact suggested the area is about to be discovered by retirees, like Mt Maunganui and Papamoa were many years ago. And there is something in these arguments.

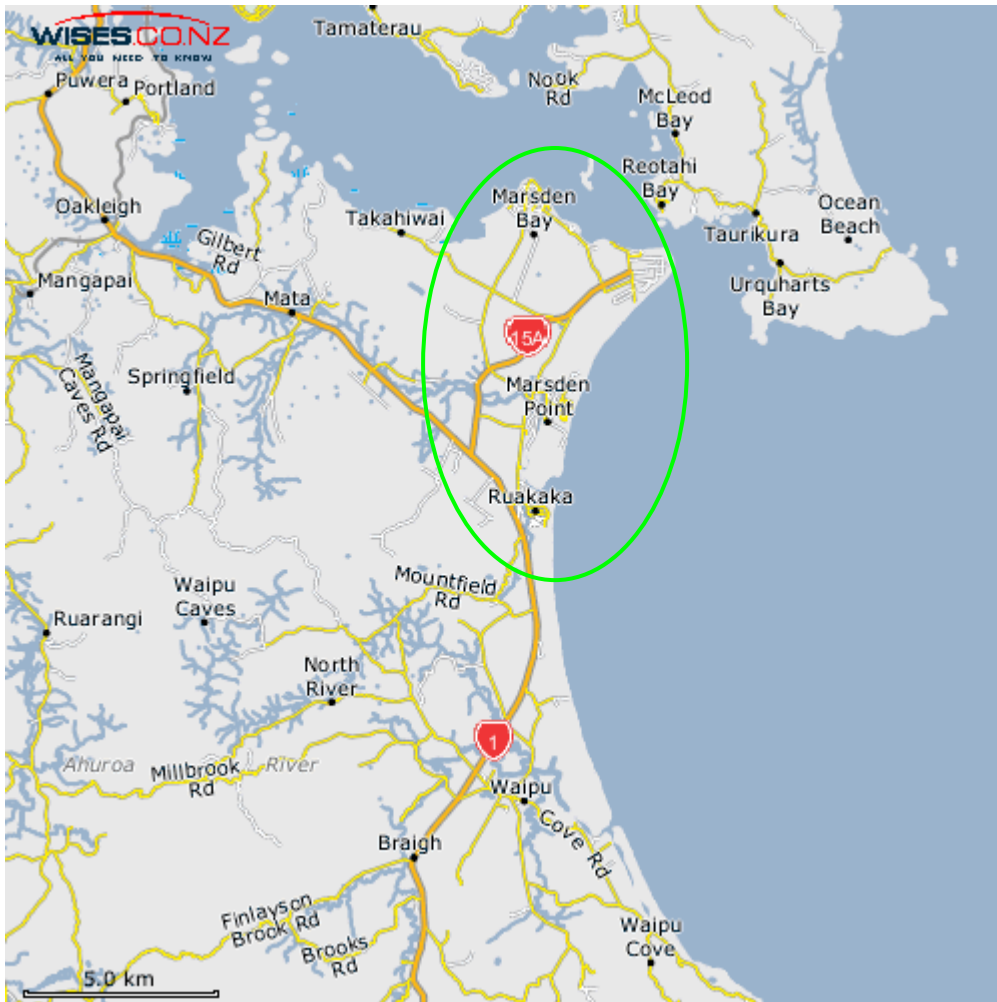
However, demand by end-users prior to 2002 was associated with section prices under half the current level. From an affordability perspective, this means that there will be a much smaller pool of potential end-

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users who can afford to buy a section now than existed prior to 2002. Many of the sections in this area are well outside the affordability of most of the people who will work in the industrial parks. This area is competing for would-be holiday home owners with not only the other parts of Northland, where there has been significant subdivision activity (e.g. see our recent Mangawhai report and our forthcoming Far North report), but also with the Coromandel. The next generation of would-be holiday home owners now face a much larger hurdle to buy their first home before they can consider buying a second home. There is also the risk of higher interest rates in the wings (see our **Interesting Times** service for the only truly insightful analysis available on the outlook for interest rates).

Taking all factors into account we conclude that the pool of potential buyers to bail out the investors that have bought sections in the One Tree Point-Ruakaka area is more likely to shrink than grow over the next few years. Section sales in the Whangarei County have already fallen materially, while we see more downside risk. Consequently, the median days it takes to sell sections should increase (the blue line in the left chart on the previous page). The last time section sales were low and days to sell were high in the Whangarei Country was 1999-2002, during which time median section prices wobbled sideways. This time around we expect significant downside risk to sections prices because of the massive increase in supply relative to end-user demand and because prices are at much less affordable levels. A determining factor will be how many weak links there are on the sell side of the market.



### **Findings from our visit to One Tree Point-Ruakaka and our websearch**

We visited One Tree Point-Ruakaka recently to assess the level of end-user versus investor demand. We visited four new or newish subdivisions in the One Tree Point area (Endeavour Court, Kowi Lakes, La Pointe and Marsden Cove) and four in the Ruakaka area (Seabreeze, Tamure Grove, River Garden and Riverglade). There are some mini-subdivisions in the area, but we did not inspect them.

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We defined Paradise Shores, by the Ruakaka surf beach, as an existing subdivision, so we have not included it in our numbers. However, even though this subdivision was finished five or more years ago, it is not much more than half built on today and has a number of sections for sale. We believe the slow progress in this subdivision being built on indicates that there is not massive demand in the general One Tree Point-Ruakaka area for new holiday homes. When we also take into account that Paradise Shores is the only truly beach-front subdivision in the area, with most of the new subdivisions being driving distance, not walking distance from a quality beach, it rings warning bells for the new subdivisions.

The eight subdivisions considered are in the process of adding just under 700 sections in the One Tree Point-Ruakaka area. This includes only the 100 of the 700 sections planned for Marsden Cove that have been put on the market so far (the plan is to release sections in 10 stages – the photo below is of the Marsden Cove subdivision, with some boats already residing in the marina). It does not include the 460 sections planned in several stages at the Danne Mora/Fulton Hogan site between Marsden Cove and La Pointe (source: [www.northgate.co.nz](http://www.northgate.co.nz)), nor the North Lakes site where 320 sections are planned (source: [www.northgate.co.nz](http://www.northgate.co.nz)), nor the planned subdivision of the “Donna Logan” farm at the north end of the race course (last we knew something like 180 sections were planned for this land), nor Stage 1 of La Pointe that involved around 45 sections and is now almost fully built on (and largely occupied by permanent residents). Taking all known plans into account, and adding in the few small subdivisions we know about, just over 2,300 sections have either recently been developed or are in the pipeline.

While job creation in this area, growth in demand from retirees and growth in holiday home demand will eventually absorb this number of sections, we believe the time frame is more than a decade (most likely much more), implying significant near-term oversupply and subsequent downside risk to prices.



In one of the One Tree Point subdivisions lots of building activity was underway, which is usually an indication of end-user demand. On closer inspection we found that five of the nine finished new houses were spec houses for sale, while there were thirteen spec houses under construction with some of these houses being built as spec rentals ([http://www.residentialrentals.co.nz/residential\\_rentals/search.cfm](http://www.residentialrentals.co.nz/residential_rentals/search.cfm)). There were four completed houses that were occupied by what looked like permanent residents, indicating some level of end-user demand, but this palled in comparison to the 18 spec houses for sale and 21 sections for sale on the secondary market (i.e. over 65% of the sections were still in search of end-holders, albeit that 18 of these sections now had houses attached).

In a larger and more established subdivision we found 41 of just over 200 sections built on and occupied, 21 sections still for sale on the primary market, 32 sections for sale on the secondary market (including nine advertised by building companies as house and land packages), two existing houses for sale, 13 spec houses for sale (five of which were still under construction) and three houses under construction that could well have been spec houses. While not of overwhelming proportions, there was clearly a significant number of investors trying to extract themselves from this subdivision and a significant number of spec houses. If the demand for spec houses was strong we would not have expected to find as many spec houses completed or near completed and not sold in these two subdivisions.

Most of the other subdivisions in the area either had not been titled yet or had not been titled for long enough to be able to accurately assess how many sections had been bought by transitory investors relative to end-users. However, our websearch on [www.realestate.co.nz](http://www.realestate.co.nz) revealed 64 sections for sale on the



secondary market in the named subdivisions and another 20 sections advertised for sale not in these subdivisions. This does not include the lifestyle blocks in the area or the 99 sections for sale in Waipu.

One source told us that a small number of investors had walked away from contracts, and that there was a high level of investor involvement even at the upper end of the market. The problem going forward is that the developers are now competing with investors for genuine buyers. Again, a key issue going forward will be how many weak links there are on the sell side of the market. As yet there are no obvious signs of panic, but we did hear about some investors who had hoped to resell prior to title now having to settle because they couldn't resell at a profit.

In the nearby Waipu area there are several moderately-sized subdivisions still selling on the primary market and lots of mini-subdivisions, but nothing of the scale of the One Tree Point-Rurakaka subdivision activity. Our websearch for the Waipu area on [www.realestate.co.nz](http://www.realestate.co.nz) revealed 99 sections advertised for sale (the vast majority in the primary market, while many of these were lifestyle blocks around the Waipu and Waipu Cove areas rather than beach or residential sections. There were an additional 42 lifestyle blocks advertised for sale, almost exclusively on the primary market. So there is competition for would-be holiday home owners on the doorstep of the One Tree Point-Ruakaka area, as well as the significant competition from Mangawhai. We expect the significant oversupply of sections relative to current and near-term end-user demand to start to weigh on prices in the not too distant future.

### **Appendix – Whangarei County**

Whangare County wraps around Whangarei City and includes: Glenbervie, Hikurangi, Kauri, Langs Beach, Matapouri, Maungatapere, McLeod Bay, Ngunguru, Oakleigh, One Tree Point, Pakotai, Parua Bay, Pataua, Pipiwai, Portland, Ruakaka, Ruatangata, Springfield - Whangarei District, Tamaterau, Tangiteroria, Tutukaka, Waiotu, Waipu, Whananaki, Whangarei Area, Whangarei Heads, Whangaruru, Whareora.