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## PROPERTY INSIGHTS

### The Far North Coastal Section Market

#### EXECUTIVE SUMMARY

In a trip to the Far North it was discovered that around 1,400 sections have recently been added to the market (including the spectrum of subdivisions from those that gained titles in the last 2 years to those where earthworks have started and titles should be available within the next year or so). This number swells to over 1,700 sections when subdivisions that are being marketed but for which titles will most likely not be available within the next year are included, and to somewhere around 2,000 when all planned subdivisions for the area are included.

The lack of building activity itself tells us that demand for holiday homes - as opposed to demand by investors for sections - is low. On past visits to the area we have been told that in some subdivisions up to 80% of section sales have been to investors. Prior to the get-rich-quick boom that started in 2003, 57 sections sold on average per annum in the Mangonui Area and 20 in the Kaitaia Area (including Ahipara and Houhora, as well as Kaitaia). If 77 sections per annum is used as a ballpark for the sustainable end-user demand for sections for holiday homes in the area – with reasons for arguing it is too high as well as too low – it suggests there are around 21 years of supply currently available or in the near-term pipeline.

The Far North and other fringe coastal property markets (i.e. markets a long way from major urban centres) do not just face the challenge of bedding down massive supply increases. At the same time they are at risk because of high petrol prices, rising interest rates (see our **Interesting Times** service for the only reliable insights into interest rate prospects) and a gigantic affordability hurdle.

For all these reasons we see significant downside risk for section prices in the Far North coastal market in the future. The unknown is how desperate some investors will get and whether there will be any mortgagee sales. Without forced sales sections prices might languish for many years while falling relative to income levels, rather than experience a short-sharp fall.



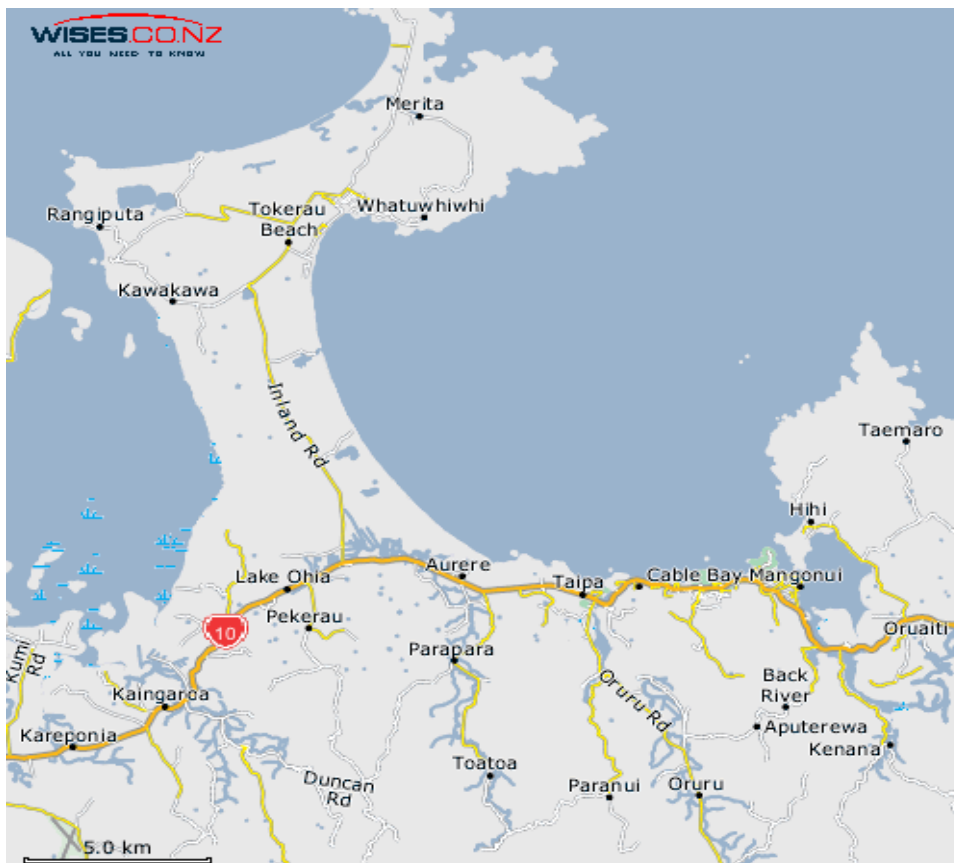
Rodney Dickens  
Managing Director and Chief Research Officer  
Strategic Risk Analysis Limited  
[rodney@sra.co.nz](mailto:rodney@sra.co.nz)



### **Around 2,000 sections have been added or are planned for the Far North coastal market**

In a recent trip to the Far North it was discovered that around 1,400 sections have recently been added to the market (including the spectrum of subdivisions from those that gained titles in the last 2 years to those where earthworks have started and titles should be available within the next year or so). This number swells to over 1,700 when subdivisions that are being marketed but for which titles will most likely not be available within the next year are included, and to somewhere around 2,000 when all planned subdivisions for the area are included. This does not include a number of small to medium lifestyle subdivisions.

The focus of the trip was on the Mangonui Area (including Mangonui, Coopers Beach, Cable Bay, Taipa and the Karikari Peninsula – Tokerau Beach, Whatuwhiwhi and Rangiputa – see the map below), but Ahaipara and Houhora were also visited. The breakdown of the 1,700 is: Cooper Beach, Cable Bay, Taipa and Mangonui 820, Kari Kari Peninsula 740, Ahipara 90 and Houhora 50.



Owen McShane of the Centre for Resource Management Studies argues that “A healthy urban or rural economy needs a supply of six to ten years of sections, as a land ‘bank’, or alternatively the ability to respond rapidly to changes in demand.” (Source: Mangawhai Memo, “Rodney’s Ravings – a Response and Expansion”, 22 March 2007). So where does the Far North stand up relative to Owen’s assessment of “healthy”?

Our field trip revealed that only 78 of the 1,700 section have been built on while eight of these sections have houses under construction. From an end-user perspective, this implies that over 1,600 sections are currently or will soon be available to satisfied demand for holiday homes, of which around 800 are still for sale on either the primary or secondary market. But what is a normal level of demand?

The lack of building activity itself tells us that demand for holiday homes - as opposed to demand by investors for sections - is low. On past visits to the area we have been told that in some subdivisions up to 80-90% of section sales have been to investors. Prior to the get-rich-quick boom that started in 2003, 57 sections sold on average per annum in the Mangonui Area and 20 in the Kaitaia Area (including Ahipara and Houhora, as well as Kaitaia). If 77 sections per annum is used as a ballpark for the sustainable end-user demand for sections for holiday homes in the area – with reasons for arguing it is too high as well as too low – it suggests there are around 21 years of supply currently available or in the near-term pipeline.

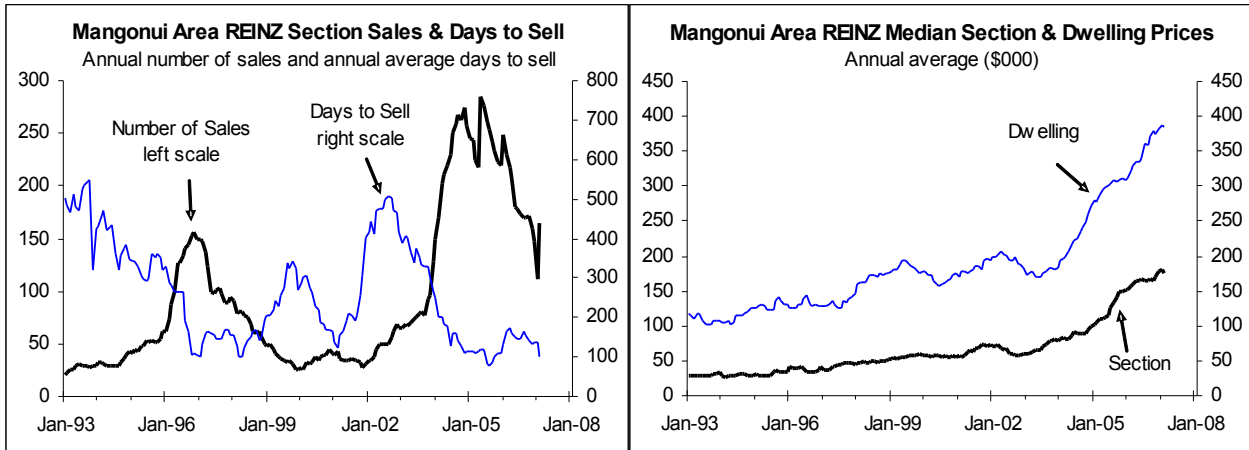
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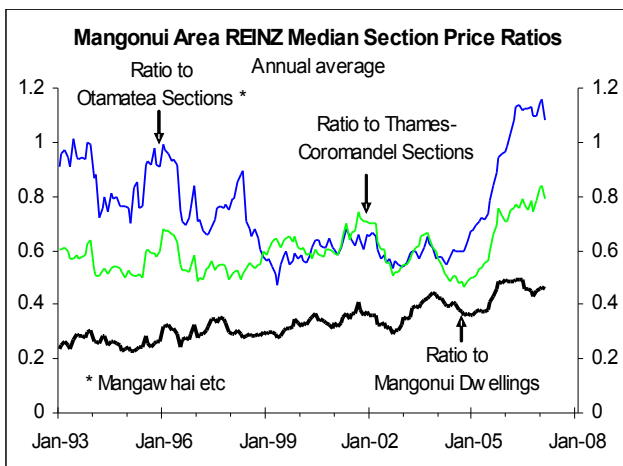
The left chart below shows the annual number of section sales in the Mangonui Area (black line) and the annual average of median number of days it takes to sell sections (blue line). In normal markets the section sales line can be used as an indication of demand, but the trouble with this market (and with the coastal section market more generally) is that demand and supply are confused. The monthly sales figures are dominated by when title have become available for sections and/or when the sale become unconditional, so the sales number can reflect demand from a year or more ago (i.e. when investors and would-be holiday home owners put down their deposits).

We suspect that new or current section sales in the Mangonui Area (i.e. sales associated with current demand), is much lower than the black line suggests (i.e. below 100 per annum). This compares with around 700 sections currently on the market for sale based on our search of [www.realestate.co.nz](http://www.realestate.co.nz) – this includes both ads for sections on the primary and secondary markets. Developers still trying to sell on the primary market face increasingly competing from investors trying to exit the market.

On inspecting 18 subdivisions in the Mangonui Area we identified 129 sections for sale on the secondary market, but suspect that this under-estimates the number of sections that investors are currently trying to extract themselves from in the area. Some of the subdivisions had 25-35% of all sections for sale on the secondary market. Even on [www.trademe.co.nz](http://www.trademe.co.nz) the majority of section sales ads are written by real estate agents, which makes it harder to identify the number of urgent sales or stressed vendors, but even allowing the marketing language used in such ads there were a few that indicate motivated vendors (e.g. “vendor says sell”, “priced to sell”, “vendor wants action”), and some investors trying to sell several sections.



A problem the Far North section market faces is that it is not ideal as a retirement area for other than current residents because it lacks services and is a long way from grandchildren etc (albeit that this can have its advantages for free-wheeling retirees). Unlike the Coromandel, Omaha, Mangawhai, Langs Beach, Waipu, One Tree Point, Ruakaka, Tutukaka, Whangarei Heads, Matapouri and a number of other places, the Far North is not weekend drive material for most people, leaving it predominantly of interest to those wanting long holidays at the beach over Christmas etc and not fussed about 5 hours drives from Auckland with screaming kids in the back.



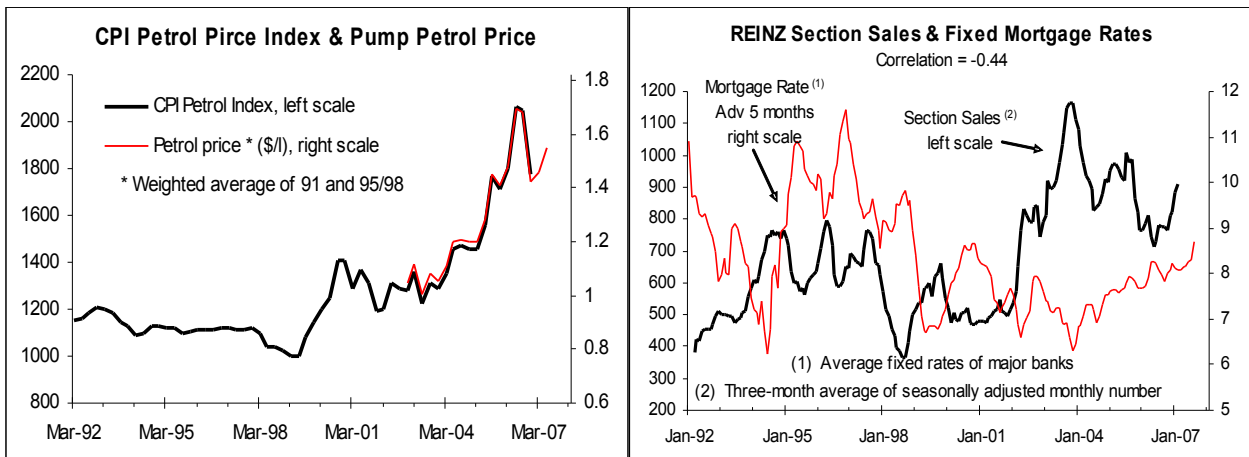
Everywhere is expensive in absolute terms (i.e. relative to disposable incomes – see analysis of this in our **Housing Prospects** reports). Section prices in the Mangonui Area have increased almost 200% since 2003. The Far North has become expensive in both absolute terms and in relative terms (i.e. relative to other places people, especially from Auckland, would consider having holiday homes). The adjacent chart shows that the median section price in the Mangonui Area has risen to 80% of the average for the Thames-Coromandel versus an historical average of around 60%, and to 110% of Otamatea versus an historical average of around 80%.



### The four-pronged challenge for fringe coastal property markets, including the Far North

The Far North and other fringe coastal property markets (i.e. markets a long way from major urban centres) do not just face the challenge of bedding down massive supply increases. At the same time they are at risk because of:

- (1) high travel costs (see the petrol price chart below);
- (2) rising interest rates (see the right chart below which shows the negative impact interest rates have on section sales, with interest rates taking five months on average to impact on section sales, while the analysis in our **Interesting Times** reports points to further upside risk for interest rates); and
- (3) a gigantic affordability constraint (i.e. not only are coastal section prices now outside the affordability of the many current would-be holiday home owners, the next generation of would-be holiday home owners are going to struggle to afford to buy a primary residence before they even think about a holiday home).



For all these reasons we see significant downside risk for section prices in the Far North coastal market in the future. The unknown is how desperate some investors will get and whether there will be any mortgagee sales. Without forced sales sections prices might languish for many years while falling relative income levels, rather than experience a short-sharp fall. While it will be many, many years before the excess supply of sections (i.e. the excess relative to the demand of current would-be holiday home owners) is cut to a level where the market can be described as getting “tight” and prone to price appreciation.

### Some pictures from the fact finding trip to the Far North

There is no denying that the Far North has some beautiful, unspoilt and unpopulated beaches (see below).



If it was not the best part of five hours drive from Auckland the place would be swarming with JAFAs most weekends and all summer, and cafes and latte vendors would be springing up like pimples on a teenager. However, the photo below gives an indication of what most new subdivisions in the Far North look like (i.e. largely unpopulated by houses and a significant number of for sale signs, reflecting the low level of end-

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user demand and the significant investor involvement in the market). On a positive note, for long-standing holiday makers to the Far North, they need not be concerned about having to pre-book space on the beaches for some time to come, while the increase in the number of new sections greatly overstates the mountain of effluent etc the Far North District Council's has to worry about every summer.



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