



Presentation to
EDS Coastline Conference

The coastal and lakeside property market story

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Presenter

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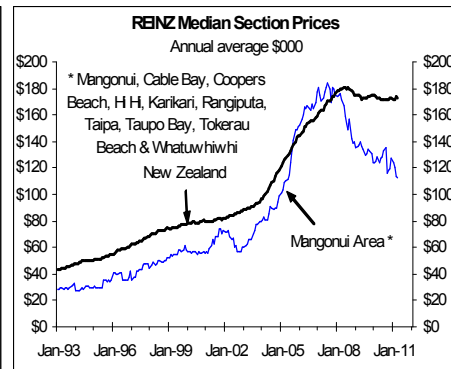
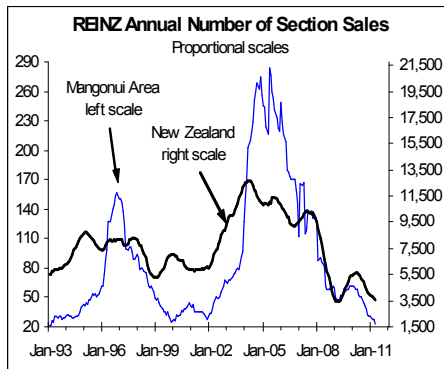
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Putting the coastal and lakeside property speculative bubble in perspective

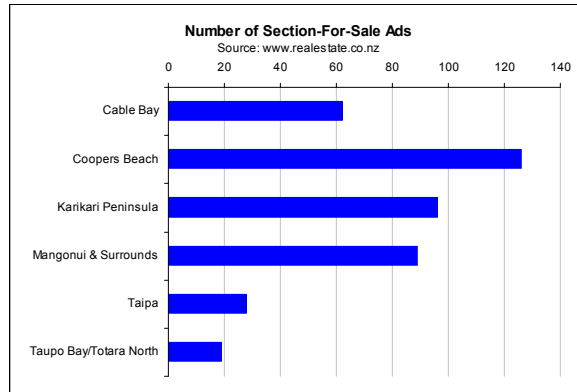
A peak of 284 annual sales, 381% above the previous 10 year average. Prices that peaked at 12% above the national average versus being 31% below the national average previously. The price is now 35% below the national average, but the market is still swimming in supply.





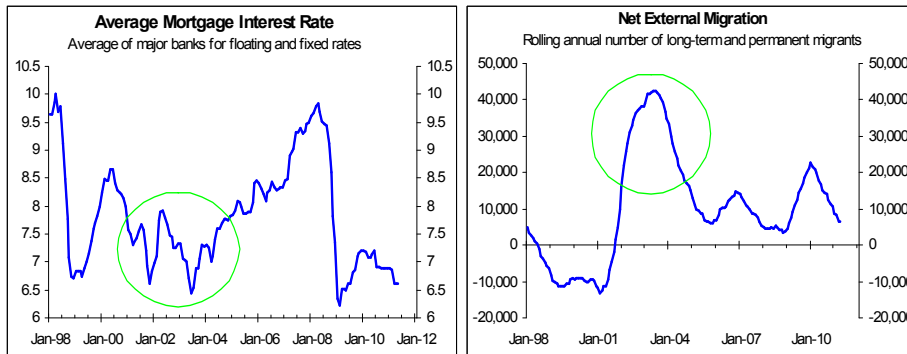
Putting the coastal and lakeside property speculative bubble in perspective

420 ads for sections for sale on the REINZ website (www.realestate.co.nz) versus 23 section sales reported by REINZ in the year to April 2011. This adverse demand-supply balance suggests that the downward adjusted in section prices has some way to go before ending.



The economic fundamentals behind the coastal and lakeside property boom

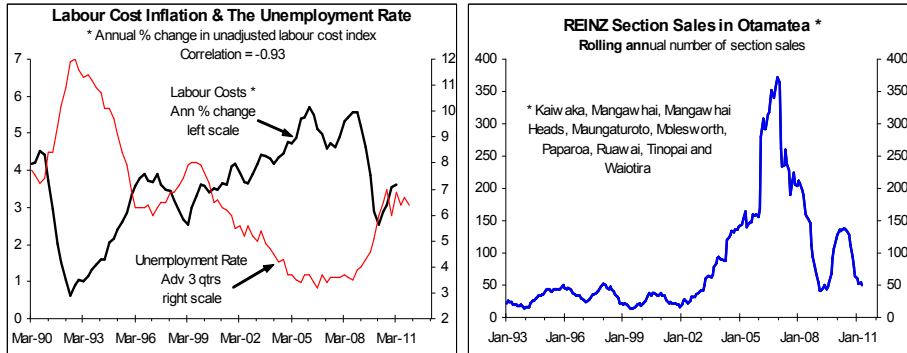
Like most speculative bubbles, the coastal and lakeside property boom was initially driven by favourable economic fundamentals that justified a strong cyclical upturn in demand and prices





The economic fundamentals behind the coastal and lakeside property boom

Low interest rates, strong population growth and a strong labour market combined with a coastal and lakeside market that hadn't had lots of new subdivision development for some years



The making of a speculative bubble in the coastal and lakeside property market

Add developers, investors, financiers and presales (i.e. an environment conducive to a speculative bubble in coastal and lakeside section prices and a subdivision bonanza)



By insisting on presales to mitigate risk the financiers helped create an environment conducive to a speculative bubble in prices and subdivision activity.

The game involved \$5,000 or 5% down and 18-36 months to resell the sections before title, hoping to make \$30,000-50,000 in profit without outlaying more than the deposit.



Like any pyramid scheme it required ever more buyers to keep the game going
In some areas investors bought 90% of the new sections, which meant supply increased hugely more than justified by demand from would-be holiday homes owners. It was inevitable the bubble would burst, leaving investors and developers scrapping over crumbs of demand.



Like any pyramid scheme it required ever more buyers to keep the game going
Just as the prime locations led the charge during the boom, the weak links are now starting to set the new, lower benchmark prices, with this process still having some years to play out





The stolen generation: the next generation of buyers is already in the market

If one was a good idea, two or more must be a great idea (or five in some cases). But who will be the next generation of buyers when many buyers got in ahead of when they would normally?



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