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Hamilton Residential Section Sales Slow

⇒ Implication for Block Land Sales

Buyer demand for new residential sections in Hamilton remains slow, following an already quiet period in 2007 and early 2008. Analysis undertaken by Darroch Waikato earlier this year raised fears this market had all but dried up with developers finding it extremely difficult to sell newly subdivided sites.

Higher interest rates and general nervousness in the wider housing market have contributed to the slowdown. The situation also has ramifications for the block land market.



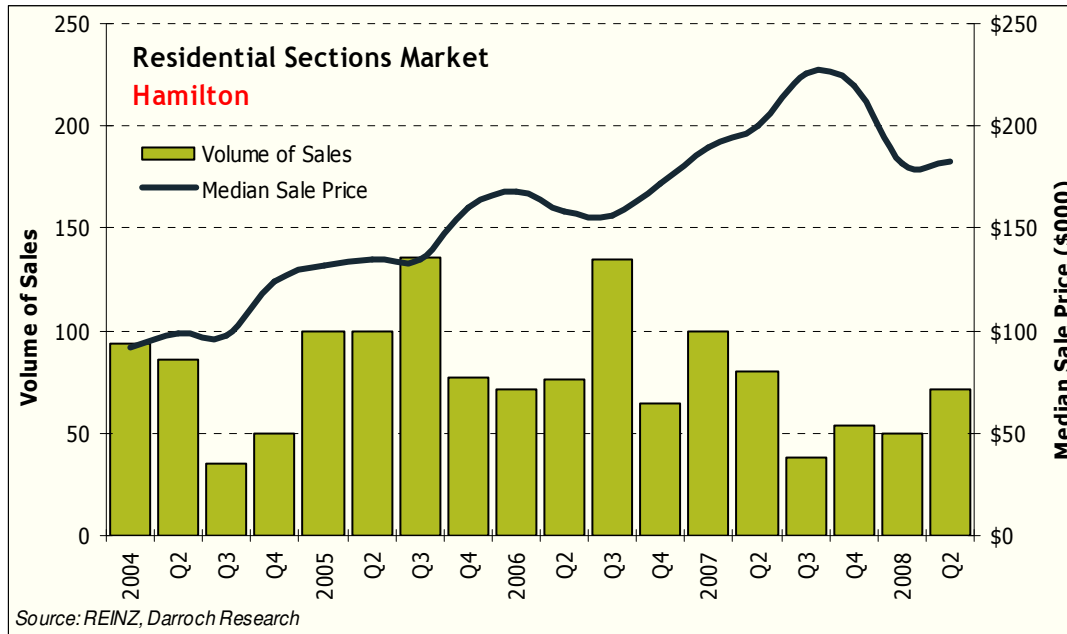
There is currently an oversupply of residential sections across Hamilton

Darroch Waikato's residential land specialist, Julie Morgan says "demand for finished residential lots was very strong during 2005 and 2006 and section prices rose accordingly. But since mid 2007 there has been a considerable slow down owing to weaker demand and general oversupply of new sites".

Steady demand in 2006 saw land developers increase their activities but by the time these new subdivisions were ready for release some 12 months later, market conditions had changed. Demand had now waned resulting in an oversupply of new sections to the market. Ms Morgan noted that earlier this year there were close to 500 residential sections listed for sale predominantly in new sub-divisions north east of the city. "Approximately 80% of the sections were listed on behalf of developers, with the balance predominantly being on-sold by investors" says Morgan. Anecdotally there are also in excess of 100 speculative houses listed for sale.

The current climate has implications for existing development land and the block land market. Developers unable to sell newly released sites on a regular basis facing escalating holding costs such as rising interest payments and rates. With demand for finished lots slow, demand for block land with sub divisible potential has weakened as well. Ms Morgan says "Since early 2007 there have been very few sales of block land with subdivision potential. Given the current climate, we anticipate that this is likely to remain the case for some time or at least until a reasonable portion of the existing oversupply is absorbed".

The oversupply of sections has meant developers have had to seriously review their pricing structure for new sections in order to meet the market. According to the Real Estate Institute of New Zealand's (REINZ) latest available data, Hamilton's overall median sale price for sections in the three months to April 2008 was \$183,000 – well down on the peak figure of \$226,000 achieved during the September 2007 quarter. To get keep sales ticking over incentives like reduced prices and low interest/interest free loan periods have helped alleviate the situation.



Some developers with captive off-shore client bases have been achieving better than expected sales for their subdivision but generally domestic consumption is still weak. Current sales volume is less than 10 sections per month.