

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY DECEMBER 2015, VOLUME 25, NUMBER 4

ARE WE WITNESSING A CONTINUING TREND TOWARDS MORE AFFORDABLE HOUSING?

In the September quarter we reported a modest improvement in the affordability rate of housing in most regions of New Zealand. Massey's December Index confirms an overall annual improvement in national affordability of 8.7 per cent. Even in Auckland, despite houses remaining severely unaffordable, there was a slight improvement of just below 5% in the September quarter compared to figures returned for the June quarter. In the December quarter we can confirm this trend has continued to strengthen. Current affordability in the Auckland region is deteriorating at a much slower pace of 3.7 per cent annually compared to 16.6% reported in September's figures.

Government imposed financial constraints including the loan to value ratio of 70% in Auckland and 80% elsewhere together with the taxation implications for investment property may have affected the Auckland market. Requirements to provide an IRD number and internal constraints in China on overseas investment may also have reduced demand amongst this cohort of investor buyers.

Will improved affordability last? Nationally, interest rates have continued to fall and despite words of caution from the RB governor, there is some speculation that a historically low official cash rate of 2.5% may fall even further. This may encourage more people, both homeowners and investors, into the market increasing demand and putting upward pressure on prices.

Notwithstanding a minor drop in the national median value to \$459,500, house prices have risen again in all regions except the Nelson, Marlborough and Kaikoura region where gains reported in the September quarter have not been sustained. The median house price there has fallen by \$10,000 to \$375,000.

Despite moderate value increases in other areas, interest rate drops and some wage increases mean improvements in affordability in this quarter are scattered across the nation. The winners in the affordability race are Central Otago Lakes (10.7%) and Nelson/Marlborough (7%). Canterbury/Westland and Hawke's Bay have both improved affordability by 2.4% and 1.8% respectively. A decline in affordability can be seen in Waikato/Bay of Plenty (6.1%), arguably reflecting the 'Auckland Ripple Effect', and there are similar declines in Wellington (3.3%), Manawatu/Whanganui (2%), Taranaki (0.8%), Northland (0.9%) and Southland (0.1%). Otago is an interesting case in point. Affordability there has deteriorated by 9.5 per cent in this quarter as wage levels have dropped by around 11% this quarter and 8% in the past year. The opposite condition applies to the Central Otago Lakes area where wage levels have continued to increase by just over 12% this quarter and 13 per cent in the past year.

The margin by which Auckland exceeds the national figure continues to increase and at 59% less affordable than the whole country, it tops historical levels. All other regions, with the exception of Central Otago Lakes (at 13% less affordable), remain more affordable than the national average, with little change in their relative costs. The most affordable area in which to buy a home is Southland closely followed by the Manawatu/Whanganui and Taranaki.

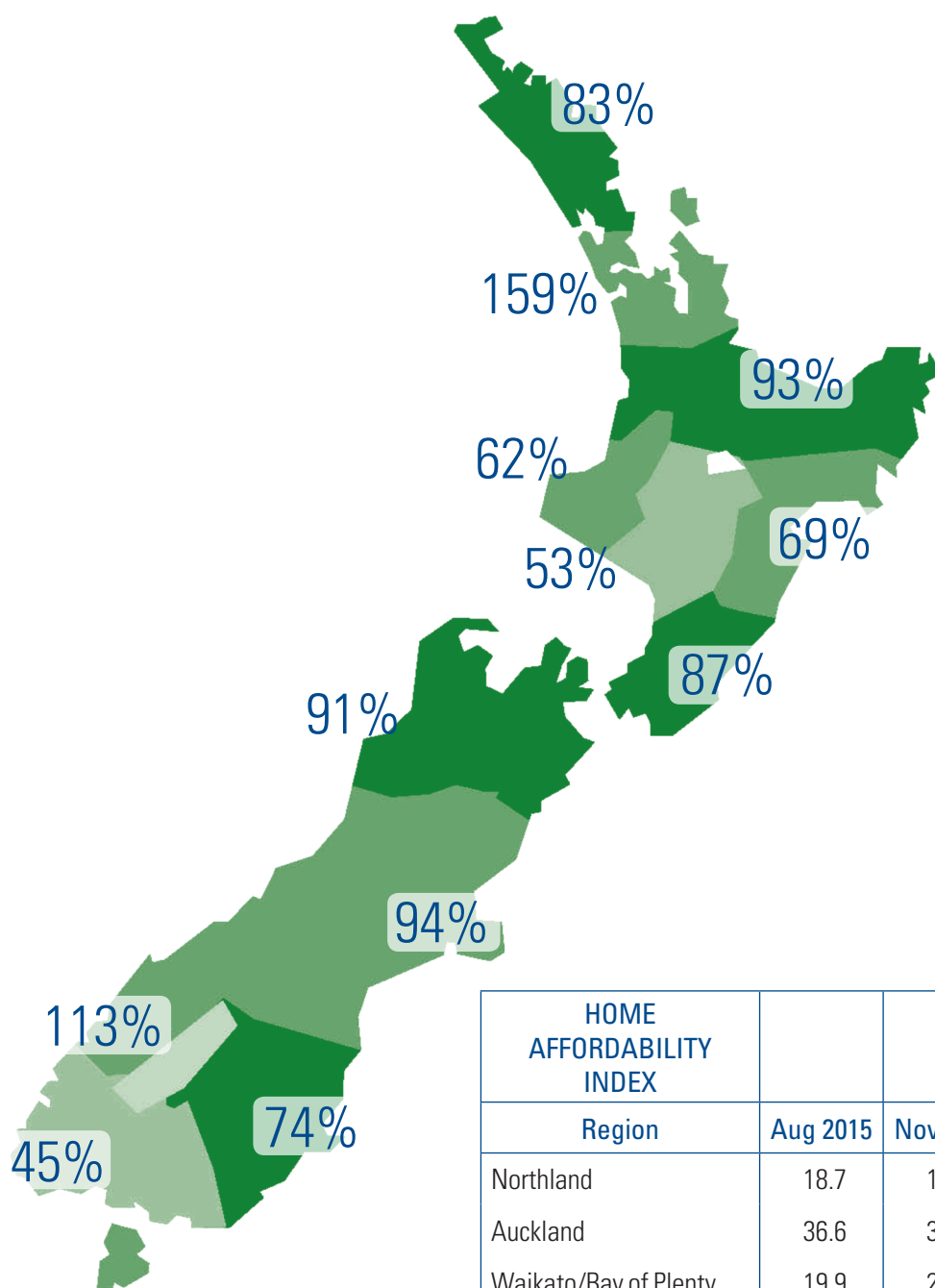
Is this a sustainable trend towards more affordable housing in Auckland and the rest of New Zealand? The messages are mixed. Recent reduction in borrowing costs and positive sentiment about a two year hiatus in interest rises hold the potential to keep pushing house prices higher. So on balance we feel there is a very real possibility of deterioration in housing affordability once again in the early part of next year.

KEY POINTS

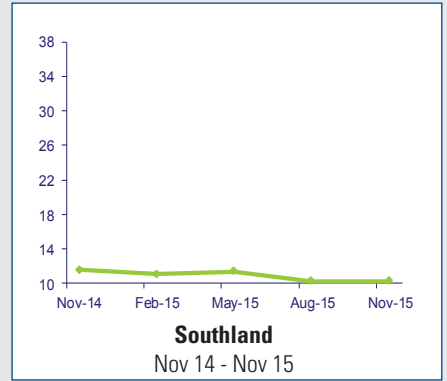
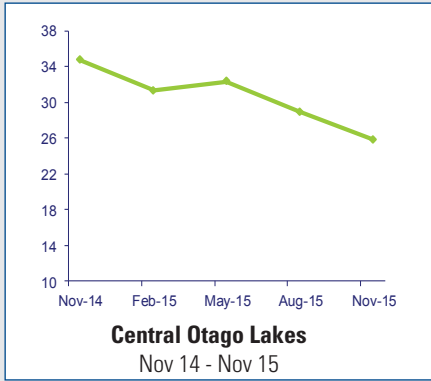
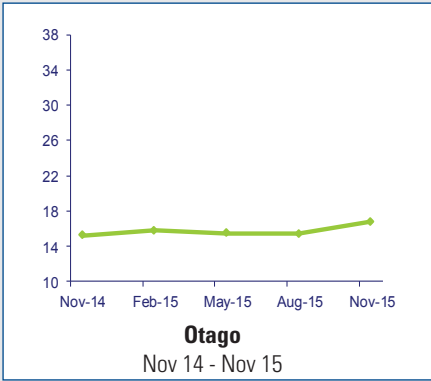
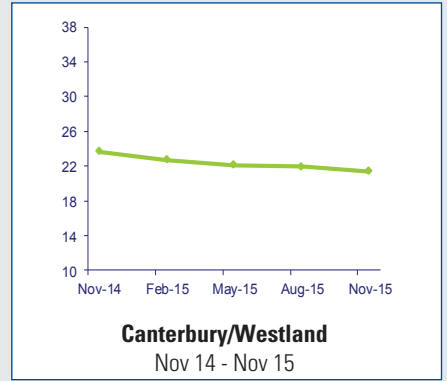
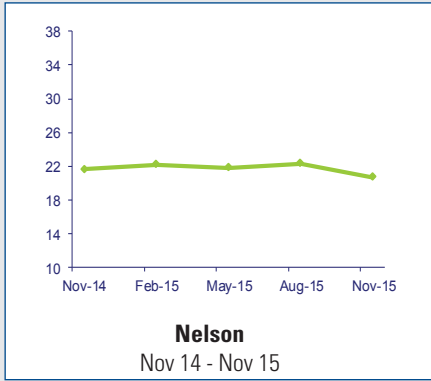
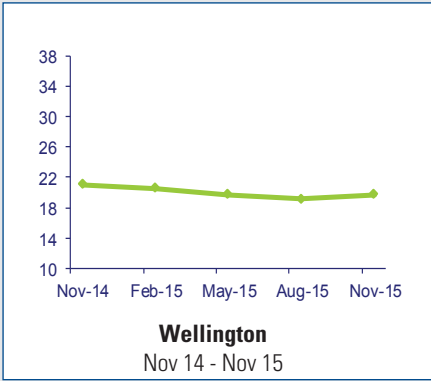
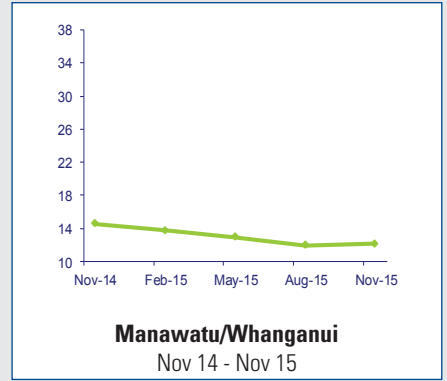
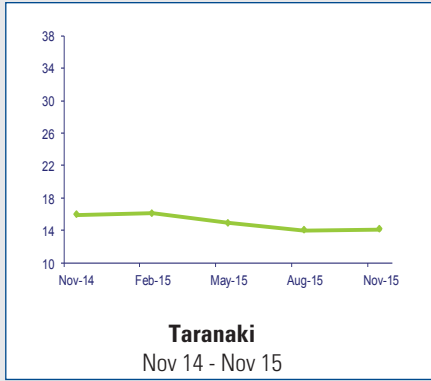
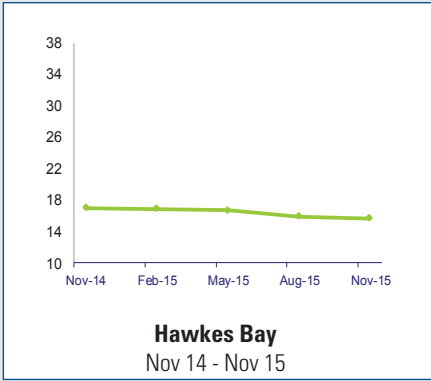
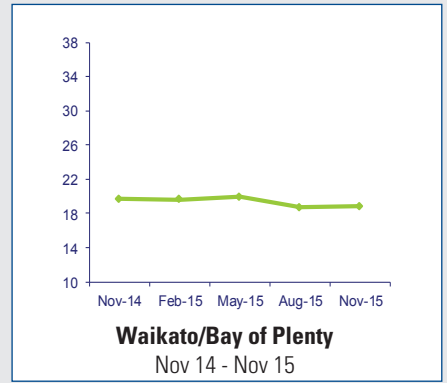
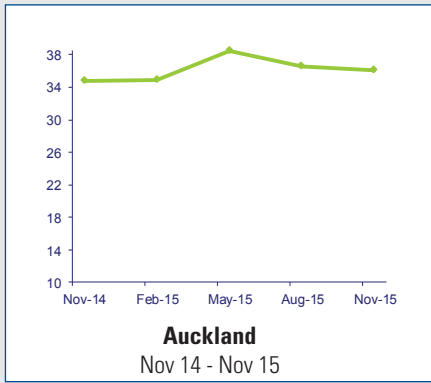
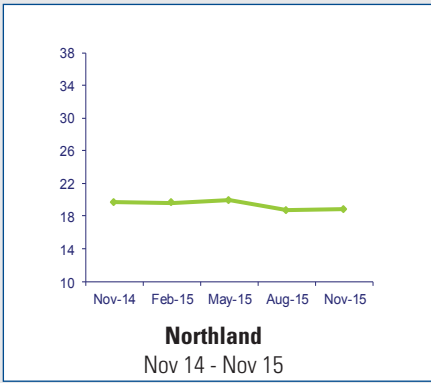
- Annual improvement in national affordability of 8.7%
- Quarterly improvement in national affordability of 5.7%
- Significant quarterly improvement in the Otago Central Lakes of 10.7% and Nelson/Marlborough of 7%
- Slight quarterly improvement in Auckland of 1.4%
- Improvements reported in the September quarter have been sustained in the December quarter



REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	Aug 2015	Nov 2015	improvement
Northland	18.7	18.8	4.1%	-
Auckland	36.6	36.1	-	3.7%
Waikato/Bay of Plenty	19.9	21.1	2.4%	-
Hawke's Bay	15.9	15.7	8.2%	-
Taranaki	14.0	14.1	11.5%	-
Manawatu/Whanganui	11.9	12.1	16.5%	-
Wellington	19.1	19.7	5.8%	-
Nelson/Marlborough	22.3	20.7	4.3%	-
Canterbury/Westland	22.0	21.4	9.7%	-
Otago	15.4	16.8	-	11.0%
Central Otago Lakes	28.9	25.8	25.7%	-
Southland	10.3	10.3	10.7%	-
New Zealand	24.1	22.8	8.7%	-



REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)

New Zealand
Nov 14 - Nov 15



DATA SOURCES

The average weekly earnings and mortgage interest rate figures are drawn from Statistics New Zealand and Reserve Bank data. Housing prices are released by the Real Estate Institute of New Zealand (REINZ). The combination of this data provides the opportunity to calculate a reliable and useful summary index. The lower the index the more affordable the housing. The index allows for comparisons over time and between regions of relative housing affordability in New Zealand.

TERMINOLOGY

Housing affordability for housing in New Zealand can be assessed by comparing the average weekly earnings with the median dwelling price and the mortgage interest rate. The earnings figure represents the money available to the family, or household unit, and the median dwelling price combined with the mortgage interest rates provide an indicator of the expense involved.

MEDIAN DWELLING PRICES

Median dwelling prices for various regions within New Zealand are released monthly by the REINZ. The figures are obtained from a survey of member agencies' sales during that specific month. There may be irregularities in the data resulting from errors in the returns or processing, but when individual returns are combined with those of other agencies the distortion is likely to be small. In some months there may be very few transactions and this can result in somewhat non-representative median prices. The REINZ continues to research ways of improving the quality of the data. The research, and other continuing action by the REINZ to monitor and improve data quality, should minimise data errors.

AVERAGE WEEKLY EARNINGS

Average national and regional weekly earnings data is provided directly by Statistics New Zealand.

AVERAGE MONTHLY INTEREST RATES

The Reserve Bank publishes a range of data on mortgage interest rates. The Reserve Bank series selected for the affordability index is based on end of month floating and fixed rates for existing borrowers. Weighted by volume, loan type and term from each lending institution, the rate used is effectively the weighted average interest rate earned by lenders (and paid by borrowers) for more than 90 per cent of the residential mortgage market.

This mortgage rate provides an indication of the interest which is payable on new mortgages entered into in the quarter under consideration. While there are various levels, as a percentage of the house price which a mortgage may represent, in general most new home buyers are up to the maximum percentage of approximately 80 percent.

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MASSEY UNIVERSITY PROPERTY FOUNDATION

The Foundation is established to sponsor research and education in property related matters in New Zealand. Funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has established a Real Estate Analysis Unit which operates out of Massey University's Albany campus.

The Foundation works closely with the Property Studies Group at MasseyUniversity.

SCHOOL OF ECONOMICS AND FINANCE MASSEY UNIVERSITY

MasseyUniversity has three campuses, located in Palmerston North, Wellington and Auckland, in New Zealand. The University has an enrolment of 33,000 students with approximately 13,000 business students. There are five schools within the Massey Business School. Professor Paul Gallimore directs the Massey University Real Estate Analysis Unit (MUREAU).

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