

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY SEPTEMBER 2016, VOL 26, NO. 3

HISTORICALLY LOW INTEREST RATES IMPACT HOUSING AFFORDABILITY METRICS

The Massey Affordability Index takes into account the cost of borrowing as well as house prices and wage levels, and year on year to September we see slight improvements in affordability in some regions of the country, largely as a result of falling mortgage interest rates. Despite the September quarter figures (June, July and August) showing a mix of increasing and decreasing affordability across the nation, almost all regions show an improvement over the 12 month period to August, with only Waikato (4.7% worse off) and Central Otago Lakes declining by 20.9%. Waikato's worsening affordability can be attributed to a spillover effect from Auckland and the decline in affordability in Central Otago Lakes exacerbated by the booming tourism industry putting stress on the supply of affordable housing. Auckland and Central Otago Lakes continue to top the index by a considerable margin, being respectively at unprecedented levels of 62% and 61% less affordable than the rest of the nation while Southland and Manawatu/Wanganui remain the nation's most affordable regions.

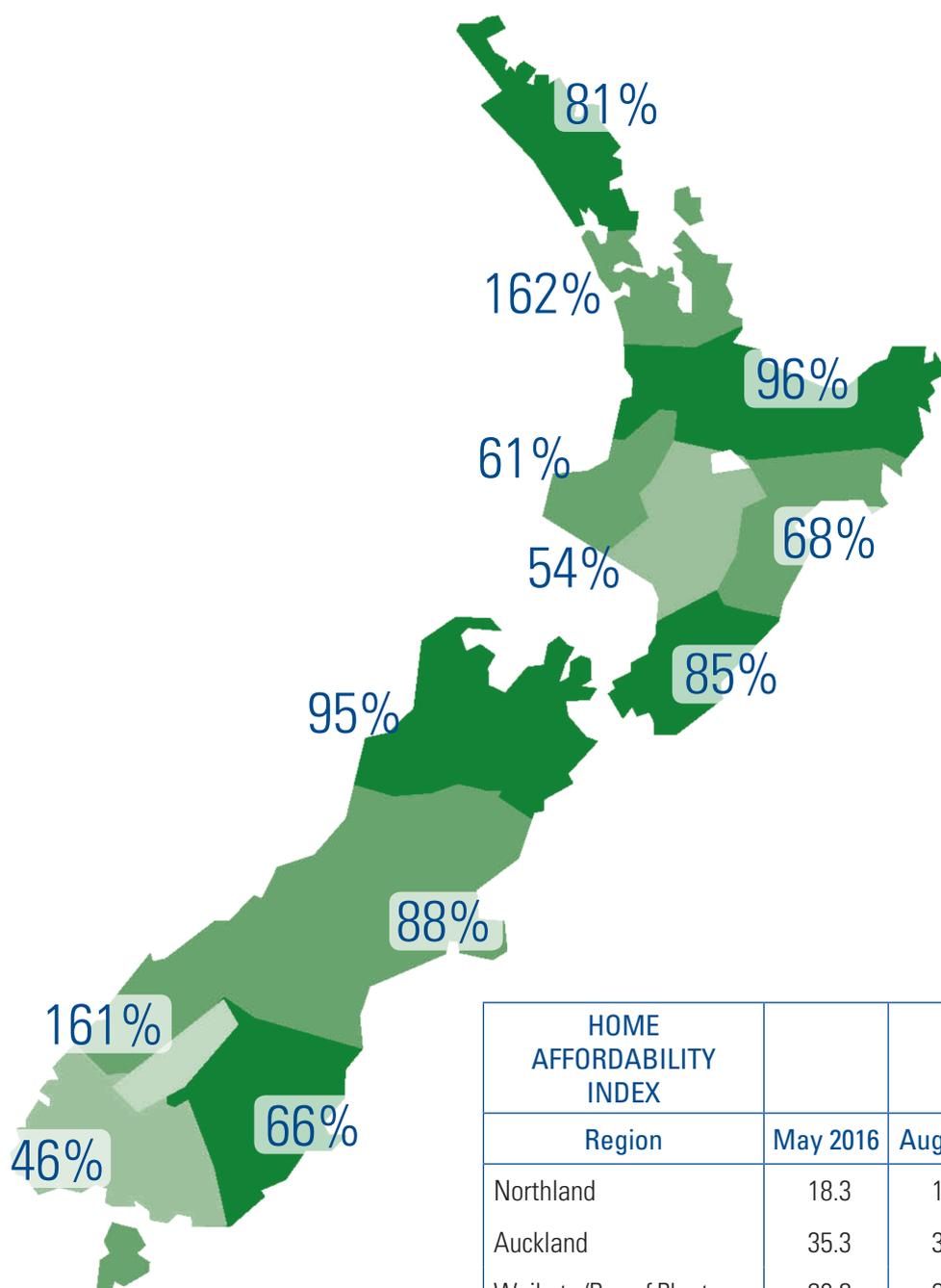
Notwithstanding a mostly improved affordability result in our index, house prices to wages remain very high and this factor continues to place strain on first home buyers, especially in the two most expensive areas. Across NZ as a whole our house price to annual wages ratio shows a slight improvement, but continues to deteriorate in Auckland (13.5x) and regions like Waikato/BOP/Gisborne, and Nelson/Marlborough/Kaikoura (7.9x each). Increases in house prices in these regions have significantly outstripped wage growth.

Steady reductions in the OCR are pushing borrowing costs lower and to some extent easing the burden of house purchase. While buyers may be discouraged with more stringent deposit requirements, cheaper borrowing holds the potential to push house prices higher and continued demand from a growing population and offshore investors could lead again to a deterioration in housing affordability as we move into the summer period.

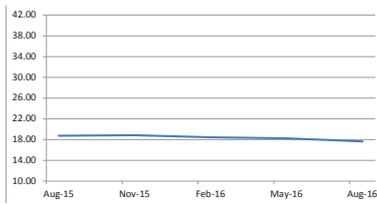
KEY POINTS

- Nationwide median sales price shows a 5.8 % year on year increase, after a 2.8% drop from last quarter's record high.
- Auckland hits a new high median for the quarter of \$842,500 in August, sustaining the growth that has seen a \$102,500 increase year on year (13.85%).
- Four regions are surpassing Auckland's annual growth – Central Otago Lakes (40.5%), Waikato (23.2%), Manawatu (14.7%) and Wellington (14.5%).
- Evidence of a slowdown in growth as seen by some drops in median house prices over the last quarter – Taranaki (-9.7%), Central Otago lakes (-8.1%), Canterbury (-3.6%), Wellington (-0.9%) and Southland (-0.5%).
- A 0.8% point drop in interest rates which equates to a 13% reduction in mortgage interest costs coupled with an increase in national wage data of 1.9% contributes to an annual improvement in national affordability of 9.9%

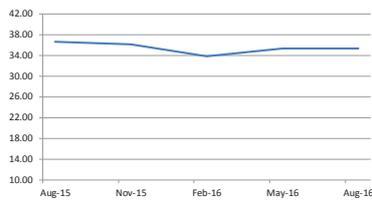
REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



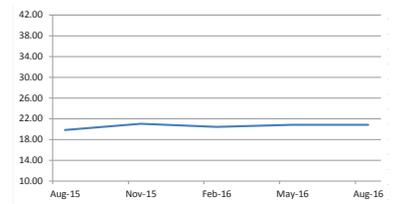
HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		
	Region	May 2016	Aug 2016	Improvement	Decline
Northland		18.3	17.6	5.7%	-
Auckland		35.3	35.3	3.4%	-
Waikato/Bay of Plenty		20.8	20.8	-	4.7%
Hawke's Bay		15.1	14.9	6.7%	-
Taranaki		14.7	13.2	5.7%	-
Manawatu/Whanganui		11.8	11.7	1.3%	-
Wellington		19.3	18.6	2.7%	-
Nelson/Marlborough		20.2	20.7	7.1%	-
Canterbury/Westland		20.5	19.1	13.0%	-
Otago		13.9	14.4	6.5%	-
Central Otago Lakes		38.6	34.9	-	20.9%
Southland		10.2	10.0	2.7%	-
New Zealand		23.2	21.8	9.9%	-



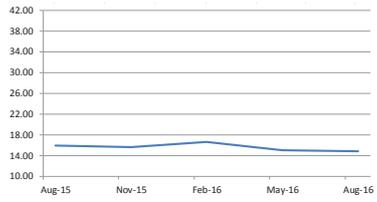
Northland
Aug 15 - Aug 16



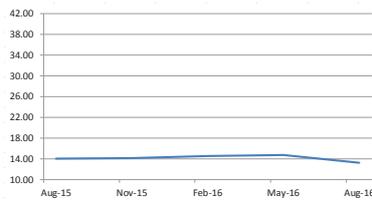
Auckland
Aug 15 - Aug 16



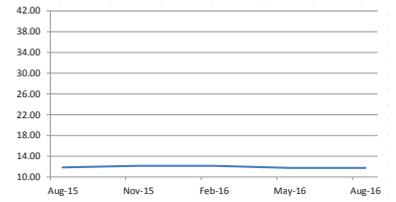
Waikato/Bay of Plenty
Aug 15 - Aug 16



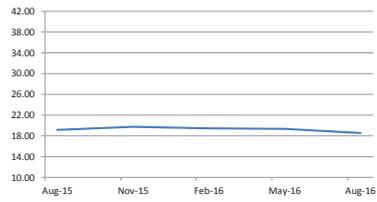
Hawkes Bay
Aug 15 - Aug 16



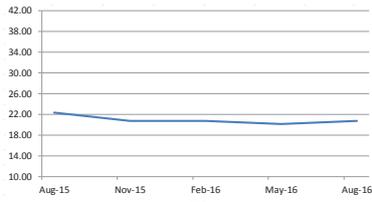
Taranaki
Aug 15 - Aug 16



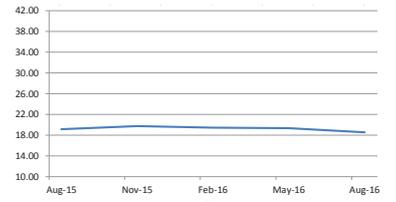
Manawatu/Whanganui
Aug 15 - Aug 16



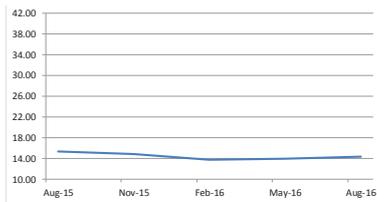
Wellington
Aug 15 - Aug 16



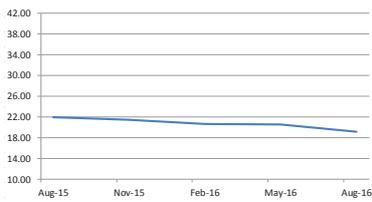
Nelson
Aug 15 - Aug 16



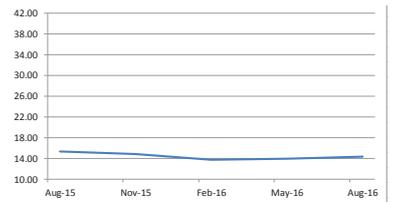
Canterbury/Westland
Aug 15 - Aug 16



Otago
Aug 15 - Aug 16



Central Otago Lakes
Aug 15 - Aug 16

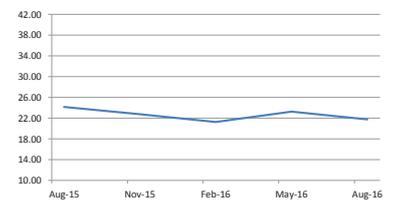


Southland
Aug 15 - Aug 16

REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)

New Zealand
Aug 15 - Aug 16



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 of relative housing affordability in New Zealand over time and between regions.

It is important to note that the Massey University affordability index is a point in time comparison across regions and from the previous time period. The actual affordability for those purchasing a home will depend on interest rate levels and income levels across the entire period the home purchaser holds a mortgage on the property.

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.

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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.

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 also established a Real Estate Analysis Unit.

The Foundation works closely with the Property Studies Group at Massey University.

SCHOOL OF ECONOMICS AND FINANCE MASSEY UNIVERSITY

Massey University 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.

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