

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY DECEMBER 2017, VOL 27, NO.4

BUSINESS AS USUAL: CONTINUED ANNUAL DECLINE IN AFFORDABILITY FOR ALL REGIONS

The Massey Home Affordability Index takes into account the cost of borrowing as well as house prices and wage levels. This quarter has seen a decline in national affordability in all regions except Hawkes Bay (1.6% Improvement) and Nelson/Marlborough (0.5% Improvement) which had a minor improvement.

Decline in affordability has been driven mainly by the increase in house price levels in core regions such as Wellington (\$48,000), Auckland/Thames/Coromandel (\$33,750) and Canterbury/Westland (\$37,407). Overall, national home affordability declined by 0.4% in this quarter with the highest regional quarterly decline in Taranaki (9.8% Decline).

In absolute home affordable index point terms, Southland (12.52 index points), Manawatu/Wanganui (14.61 index points), Taranaki (15.27 index points), and Otago (16.39 index points) remain the country's most affordable regions.

On a year-on-year basis, over the 12 months, we see no improvements in affordability in all regions. Year-on-year changes saw an increase of \$20,000 in median house price values nationally.

Central Otago Lakes and Auckland/Thames/Coromandel remain the least affordable regions in the country, 69% and 53% respectively less affordable than the rest of New Zealand. Central Otago Lakes now has house prices 15 times annual wages, whereas Auckland/Thames/Coromandel has house prices 13.5 times annual wages.

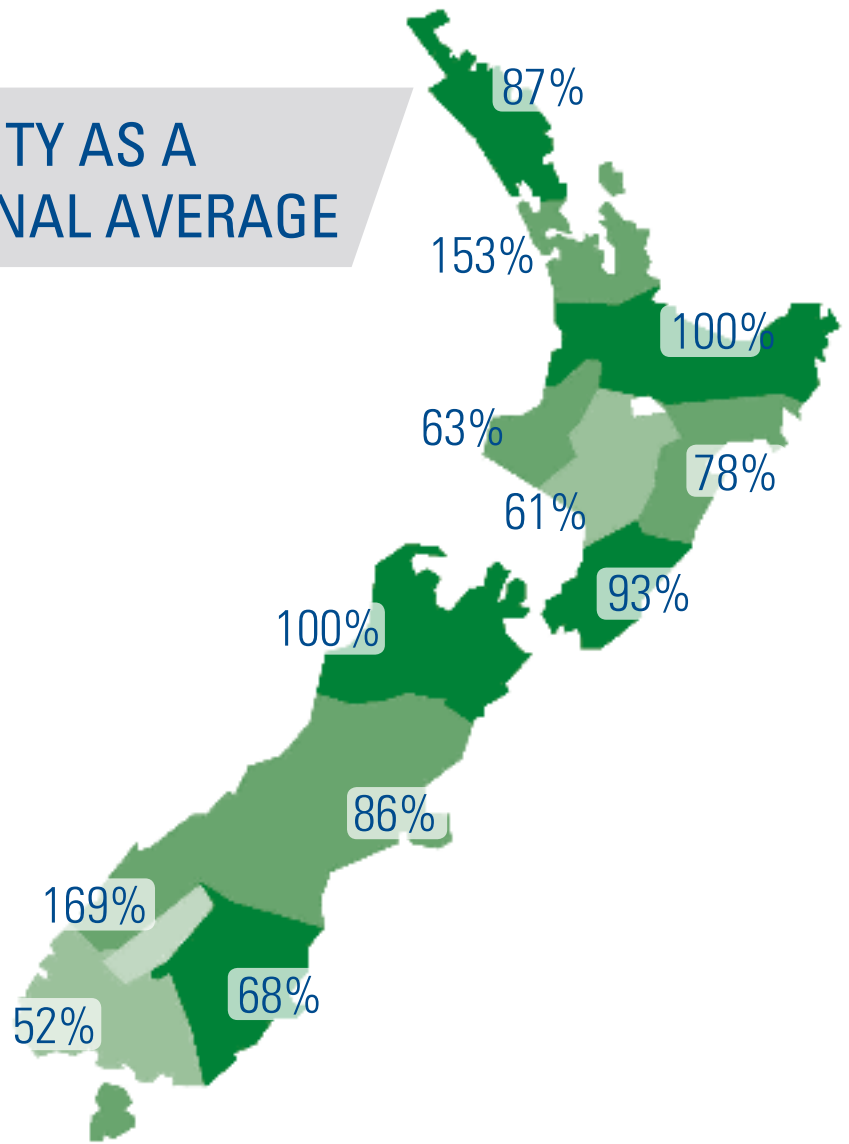
Borrowing costs remain low more broadly, with the interest rate statistic used this quarter being a 2-year fixed rate for new residential mortgages for October 2017 at 5.25% (last quarter at 5.30%).

It is interesting to see that the fall in house prices last quarter for many regions did not continue this quarter. Past and present data indicate the last quarter was a 'blip' in a continued upward cycle in house prices, and thus we see unaffordability trends over the longer term. We argue therefore that continued rising house prices and unaffordability appear to be 'business as usual'.

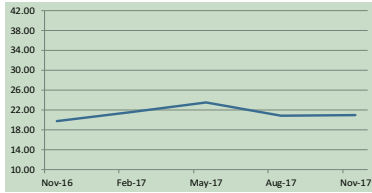
KEY POINTS

- Nationwide, median sales price shows a 3.85 % year-on-year increase, with a 1.9% increase this quarter – contributing to a year-on-year decline in national affordability of 5.1%.
- All regions have an annual price increase – ranging from 1.53% (Auckland) to 16.16% (Hawkes Bay).
- All regions show a positive quarterly rate of median house price growth, except for negative quarterly growth in Central Otago Lakes (-0.5%).
- Central Otago Lakes has the only quarterly median house price decline of \$3,500; and Wellington has the highest quarterly median house price increase of \$48,000.
- Central Otago Lakes, including Queenstown (40.87 Index Points), continues its record as the most unaffordable region in New Zealand with median house prices 15 times annual wages.

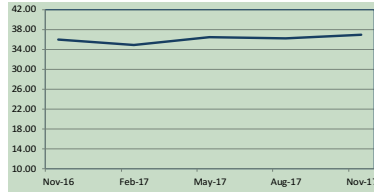
REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



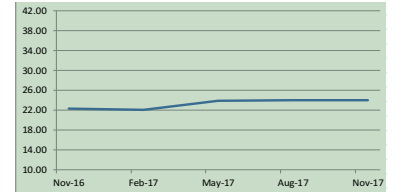
HOME AFFORDABILITY INDEX				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	November 2016	August 2017	November 2017	Improvement	Decline	Improvement	Decline
Northland	19.84	20.87	20.98		5.7%		0.5%
Auckland	35.89	36.15	36.94		2.9%		2.2%
Waikato/Bay of Plenty	22.36	24.05	24.03		7.5%		0.0%
Hawke's Bay	15.99	19.11	18.81		17.6%	1.6%	
Taranaki	15.18	13.91	15.27		0.6%		9.8%
Manawatu/Whanganui	12.77	13.82	14.61		14.4%		5.7%
Wellington	20.07	20.69	22.47		12.0%		8.6%
Nelson/Marlborough	22.56	24.32	24.20		7.3%	0.5%	
Canterbury/Westland	19.93	19.46	20.85		4.6%		7.1%
Otago	14.76	15.98	16.39		11.0%		2.6%
Central Otago Lakes	33.25	40.38	40.87		22.9%		1.2%
Southland	11.00	11.87	12.52		13.9%		5.5%
New Zealand	22.96	24.05	24.14		5.1%		0.4%



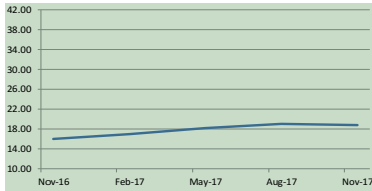
Northland
Nov 16 - Nov 17



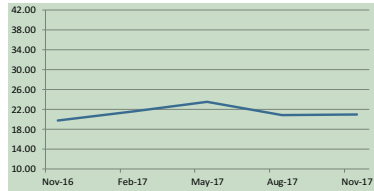
Auckland
Nov 16 - Nov 17



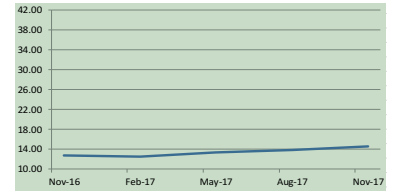
Waikato/Bay of Plenty
Nov 16 - Nov 17



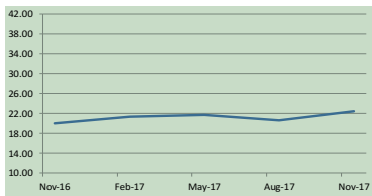
Hawkes Bay
Nov 16 - Nov 17



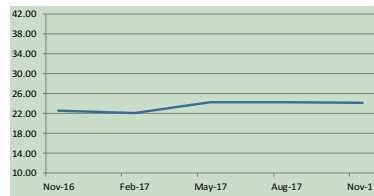
Taranaki
Nov 16 - Nov 17



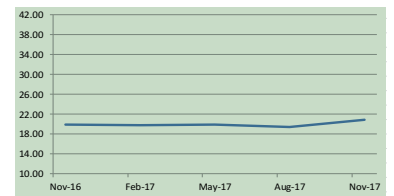
Manawatu/Whanganui
Nov 16 - Nov 17



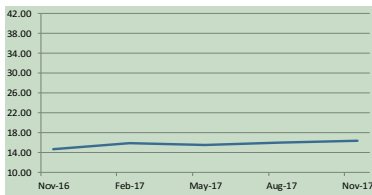
Wellington
Nov 16 - Nov 17



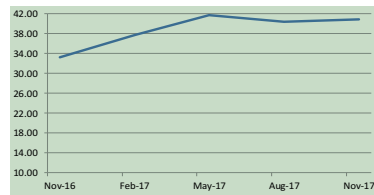
Nelson
Nov 16 - Nov 17



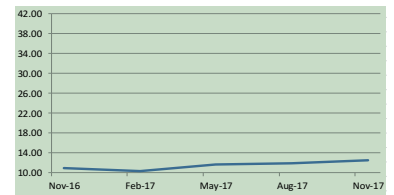
Canterbury/Westland
Nov 16 - Nov 17



Otago
Nov 16 - Nov 17



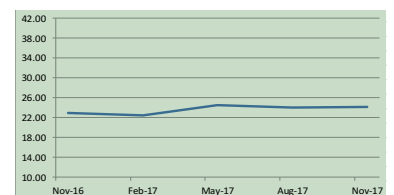
Central Otago Lakes
Nov 16 - Nov 17



Southland
Nov 16 - Nov 17

REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)



New Zealand
Nov 16 - Nov 17

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 New Zealand (RBNZ) publishes a range of data on mortgage interest rates. Some interest data provided by the Reserve Bank has been discontinued in April 2017 (E5.10 Total Monthly yield weighted average % on balance sheet).

The Reserve Bank series selected for this quarter's home affordability index is based on a 2-year fixed new residential average mortgage interest rates at the end of month for registered banks (B20).

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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 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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