

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY JUNE 2017, VOL 27, NO.2

DECLINE IN AFFORDABILITY FOR ALL NEW ZEALAND REGIONS EXCEPT CANTERBURY/WESTLAND

The Massey Home Affordability Index takes into account the cost of borrowing as well as house prices and wage levels. This June quarter has seen a decline in national affordability, driven mainly by the increase in house price levels in nine regions. Overall, home affordability declined by 9.6% in this quarter with some improvement in the regions of Otago (1.9% improvement) this quarter, and Canterbury/Westland (0.5% improvement) year-on-year.

Affordability declined this quarter in Central Otago Lakes (41.7 index points) to surpass Auckland/Thames/Coromandel (36.4 index points) as the least affordable region in New Zealand. Auckland home affordability declined quarterly by 4.5%, and Central Otago Lakes declined quarterly by 10.5%. Auckland/Thames/Coromandel and Central Otago Lakes do remain the least affordable regions in the country, 48% and 70% respectively less affordable than the rest of New Zealand.

On a year-on-year basis, over the 12 months to May, we see no improvements in affordability in all regions except for Canterbury/Westland (0.5%). Improvements in affordability in Canterbury/Westland are generally as a result of continued slow house price growth. Year-on-year changes saw an actual decline of \$8000 median house price values for Canterbury/Westland.

In absolute home affordability index point terms, Southland (11.7 index points) and Manawatu/Wanganui (13.3 index points) remain the country's most affordable regions.

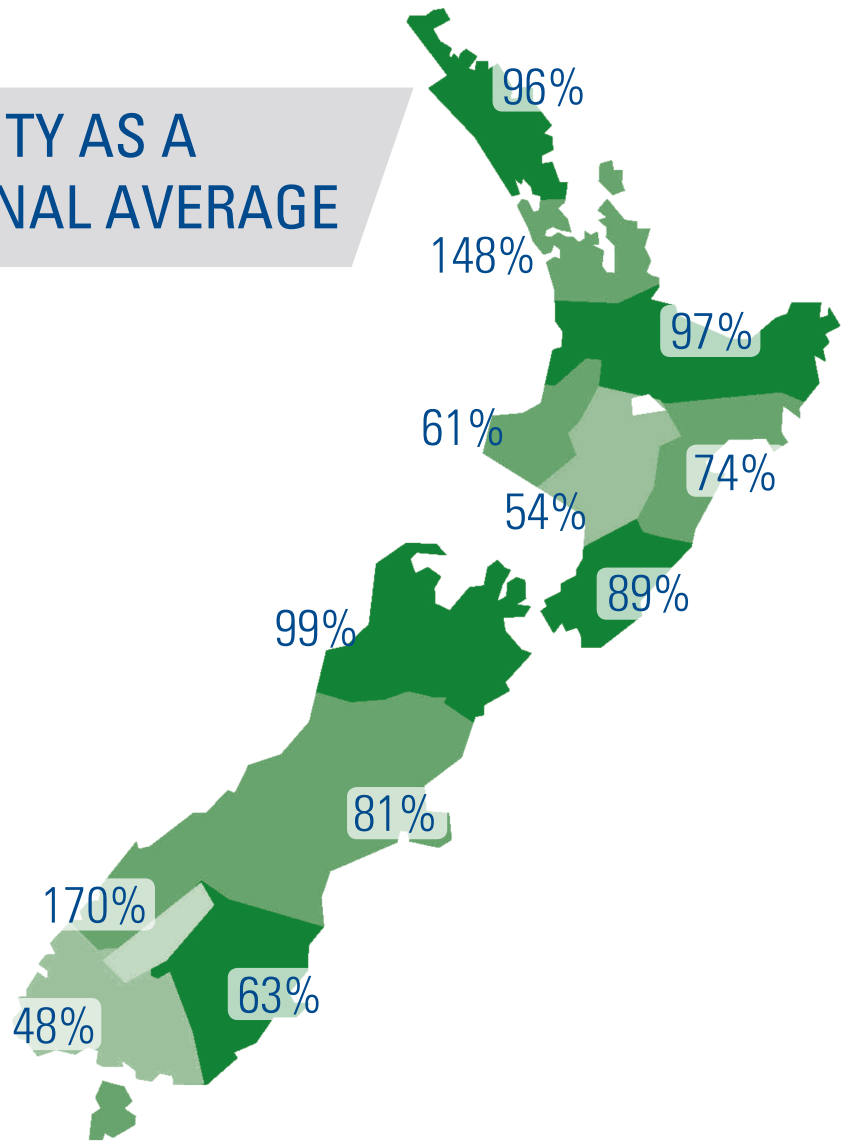
House prices to wages remain very high and this factor continues to place considerable strain on first home buyers, especially in the two most expensive regions of Auckland/Thames/Coromandel (36.4 index points) and Central Otago Lakes (41.7 index points). Median house prices are now over 15 times annual wages for the Central Otago region, and over 13 times annual wages for the Auckland/Thames/Coromandel region.

Borrowing costs remain low more broadly, with the interest rate statistic used this quarter being a 2 year fixed rates for new residential mortgages for April at 5.27%. New Zealand property prices also need to be placed in a global perspective. A global slowdown of house prices in some global cities, plus global flows of funds, can have an impact on bank lending and demand for housing purchases – especially in Beta world cities such as Auckland. It will be interesting to see if this trend of growth outside of the Auckland/Thames/Coromandel region continues, and whether Canterbury/Westland affordability improvement continues into the next quarter.

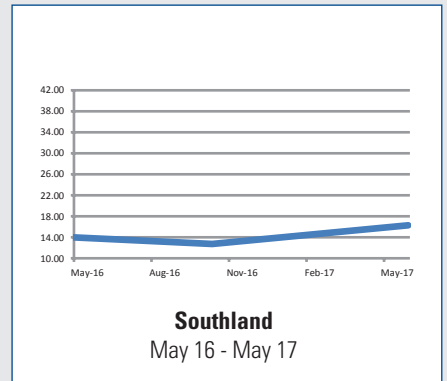
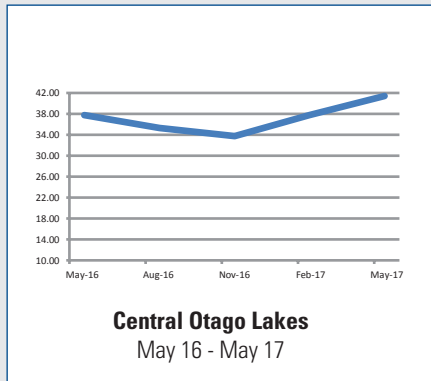
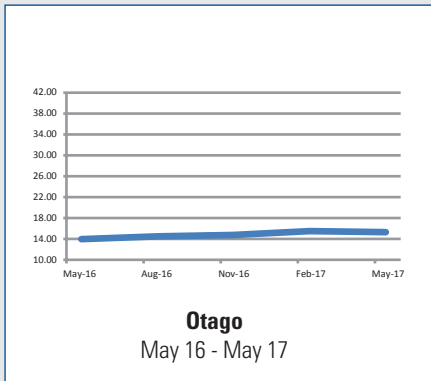
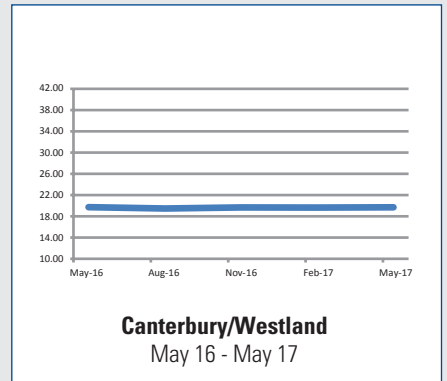
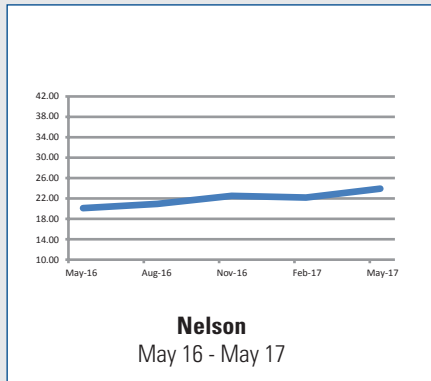
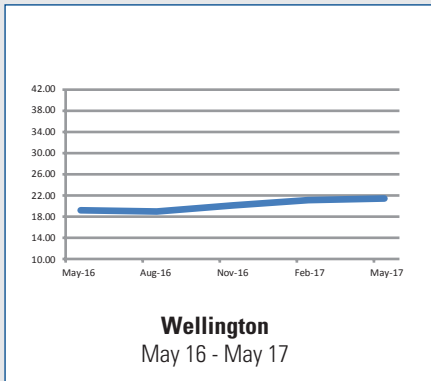
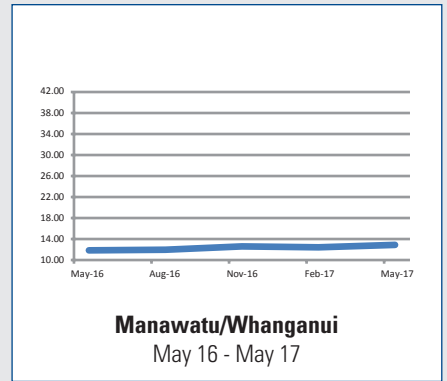
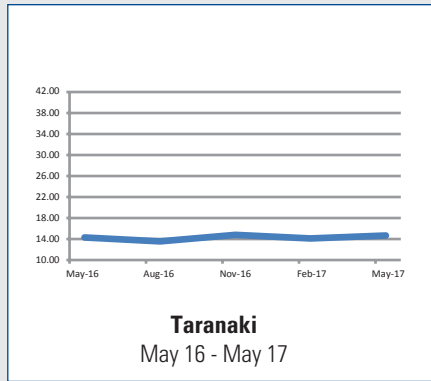
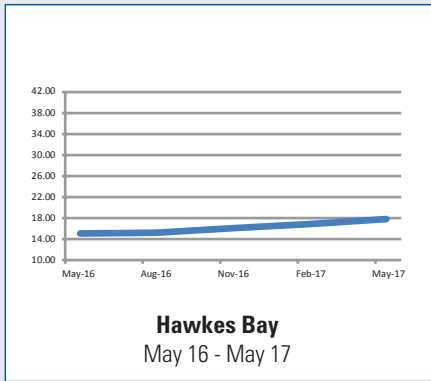
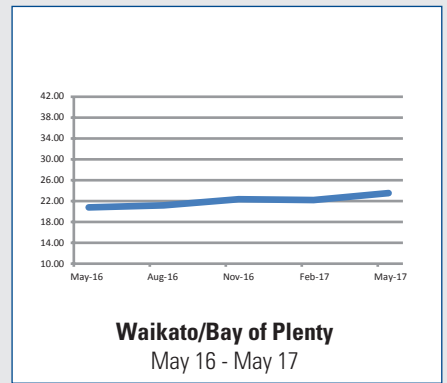
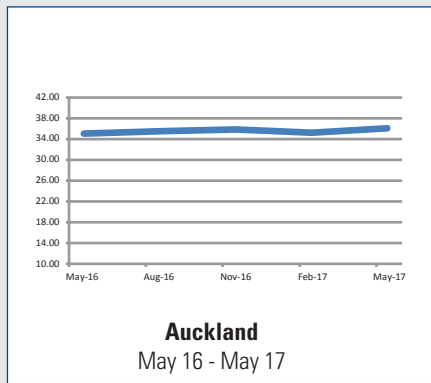
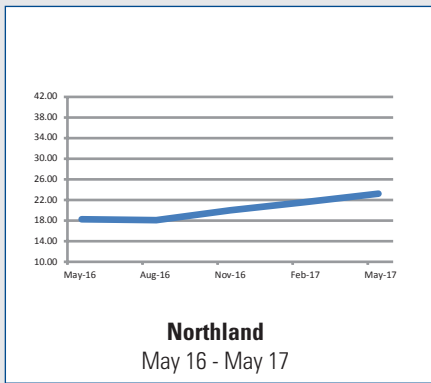
KEY POINTS

- Nationwide, median sales price shows a 6.8 % year-on-year increase, with a 9.1% increase this quarter – contributing to a year-on-year decline in national affordability of 8.2%.
- Nine regions surpass Auckland/Thames/Coromandel (3.7%) annual price increase – Northland (28.3%), Waikato/Bay Of Plenty/Gisborne (17.0%), Hawkes Bay (19.7%), Manawatu/Wanganui (16.9%), Wellington (14.0%), Nelson/Marlborough/Kaikoura (21.8%), Otago (13.0%), Central Otago Lakes (7.5%), and Southland (14.8%).
- Canterbury/Westland (0.6%) and Otago (0.1%) regions show slowest quarterly rate of median house price growth, set against Southland surge in quarterly values (\$31,000) and percentage change increase (14.8%).
- Canterbury/Westland has a year-on-year median house price decline of \$8000, and a modest increase of \$2500 this quarter.
- Central Otago Lakes, including Queenstown (41.7 Index Points), continues to surge past Auckland/Thames/Coromandel (36.4 Index Points) in the index as the most unaffordable region in New Zealand.
- House price to wage ratios demonstrate that Central Otago Lakes region has median house prices 15.2 times annual wages, and the Auckland/Thames/Coromandel region has median house prices 13.3 times annual wages.

REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE

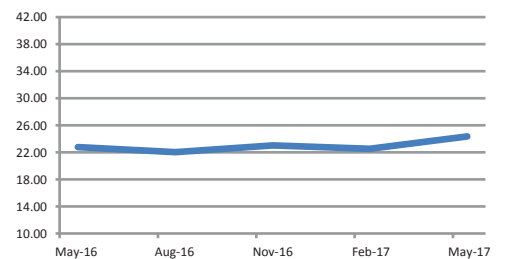


HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
	Region	Feb 2017	May 2017	Improvement	Decline	Improvement
Northland	21.64	23.57	-	32.0%	-	8.9%
Auckland	34.81	36.38	-	5.4%	-	4.5%
Waikato/Bay of Plenty	22.13	23.86	-	17.5%	-	7.8%
Hawke's Bay	17.01	18.20	-	23.6%	-	7.0%
Taranaki	14.12	15.03	-	4.6%	-	6.5%
Manawatu/Whanganui	12.54	13.32	-	15.7%	-	6.2%
Wellington	21.42	21.76	-	15.3%	-	1.6%
Nelson/Marlborough	22.15	24.26	-	23.2%	-	9.5%
Canterbury/Westland	19.78	19.94	0.5%	-	-	0.8%
Otago	15.89	15.59	-	14.8%	1.9%	-
Central Otago Lakes	37.72	41.68	-	10.5%	-	10.5%
Southland	10.29	11.71	-	16.9%	-	13.7%
New Zealand	22.40	24.55	-	8.2%	-	9.6%



REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)



New Zealand
May 16 - May 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 at April 2017 (E5.10 Total Monthly yield weighted average % (end of month) 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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