

# HOME AFFORDABILITY REPORT

QUARTERLY SURVEY MARCH 2015, VOLUME 25, NUMBER 1

## AFFORDABILITY IMPROVES IN MAJORITY OF REGIONS – AUCKLAND AN EXCEPTION

While the national affordability index has deteriorated by 10.4% in the past year, the most recent three months have seen affordability improve by 6.0% in the all districts figure, and individually in eight of the country's twelve regions. But Auckland's most recent three-month figure bucks this trend and continues to slide, with affordability declining by 0.3%. Otago (4.0%), Nelson/Marlborough (2.5%) and Taranaki (1.2%) also experienced declines in this quarter. Looking over the whole year, affordability in Auckland has worsened by almost a quarter (22.3%). These latest figures underline the ongoing two-track housing experience of New Zealanders.

Nationally, the full year fall in affordability stems from modest rises in house prices (\$15,000 or +3.6%) and interest rates (0.5 percentage points), which combined to more than offset an uplift in average weekly wages of \$25.12 (+2.3%). In Auckland, by contrast, wages rose at slightly less than the national average (1.7%) but house price rises hit \$83,000 (+14.0%).

Last quarter's good news in the national picture has been driven by a fall in prices (by \$25,750 or -5.7%), minimal change in weighted average interest rates, and wage rises averaging 1.1%. In the same period, with the same percentage wage rise and interest rates, Auckland prices have continued to push ahead (rising by 0.7%).

The regions that saw improvement in affordability in the past three months are Central Otago/Lakes (a fall of -10.0%), Manawatu/Wanganui (-5.4%), Waikato (-4.8%), Canterbury (-4.5%), Southland (-3.7%), Wellington (-2.4%), Hawkes Bay (-0.7%) and Northland (-0.5%). In all but one of the regions where affordability eased, falling house prices were the cause. The exception was Northland, where a \$10,000 (+3.1%) rise in prices was outweighed by a 4.3% quarterly jump in wages. In regions with deteriorating affordability, three-month house price rises outpaced corresponding wage changes.

The recent improvement in affordability in many regions serves only to accentuate the high costs in Auckland, whose affordability declined further compared to the whole country. Auckland is now 49% less affordable than is the case nationally. This difference is now greater than at any time in the 25 year history of the Massey Index. This trend, for the past three years, is illustrated in the chart on the right.

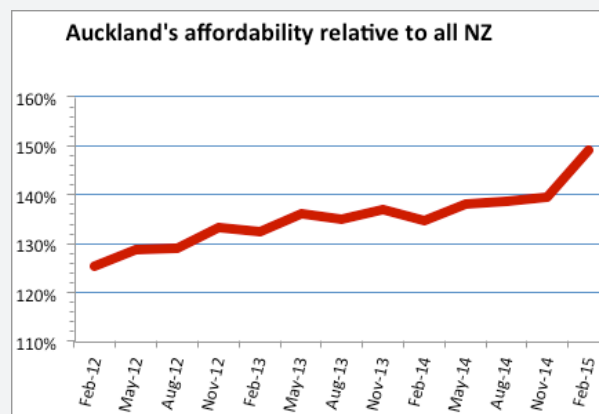
All other regions, with the exception of Central Otago/Lakes (33% less affordable) are more affordable than the national average. These range from Canterbury (3% more affordable), Nelson/Marlborough (5%), Waikato (12%), Wellington (13%) and Northland (16%), through to Otago (33%), Manawatu/Whanganui (41%) and Southland (52%). In between lie Hawkes Bay (28%) and Taranaki (31%).

Looking forward to the rest of 2015, the evidence of improving affordability in some parts of the country is tempered by the absence of such movements elsewhere, most notably in the New Zealand's largest city. Short-term stabilisation in interest rates, and house price retrenchment in some places, is likely to see continuation of this difference in regional experience. The potential for Auckland's affordability to move still further apart from the rest of the nation is likely to hinge crucially on how supply and demand factors play out in that market in the coming year.

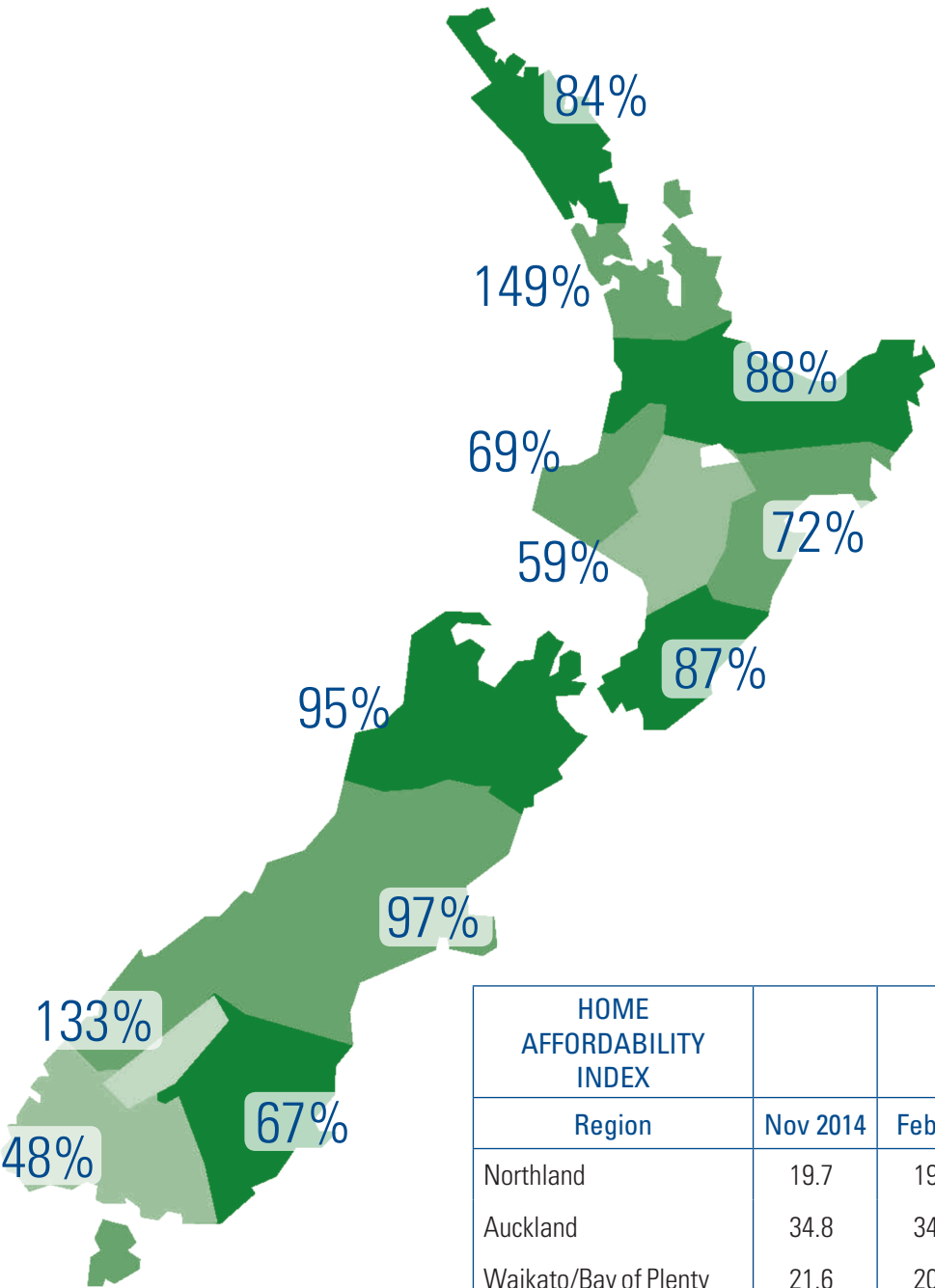
Further details on affordability and the methodology used in this survey are reported on the following pages.

## KEY POINTS

- Annual deterioration in National affordability of 10.4%
- Quarterly improvement in National affordability of 6.0%
- Auckland one of four regions to show continuing declines in affordability in past quarter
- Auckland's unaffordability relative to the whole country now at its highest level since Massey's Index began

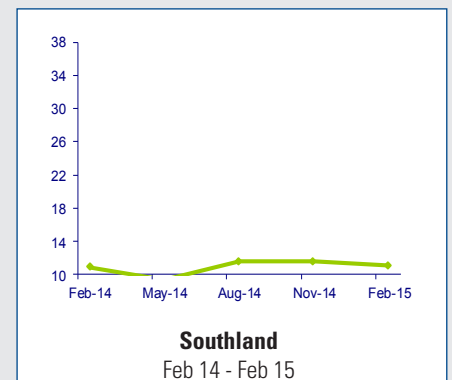
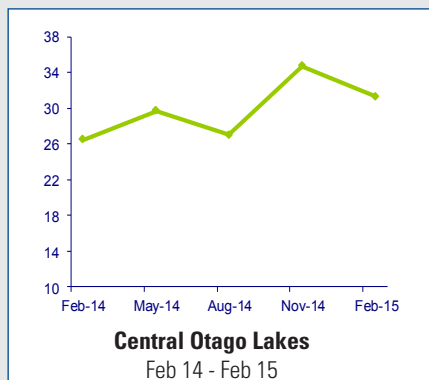
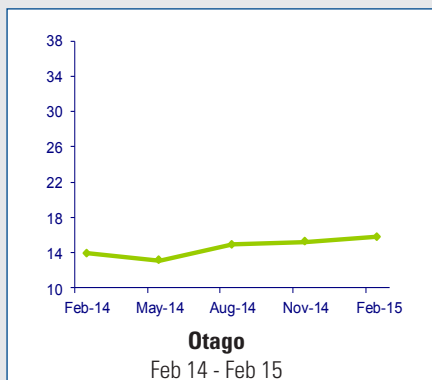
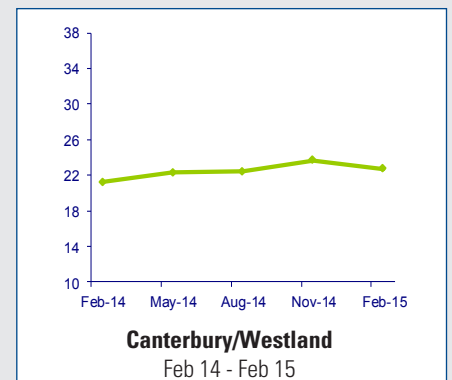
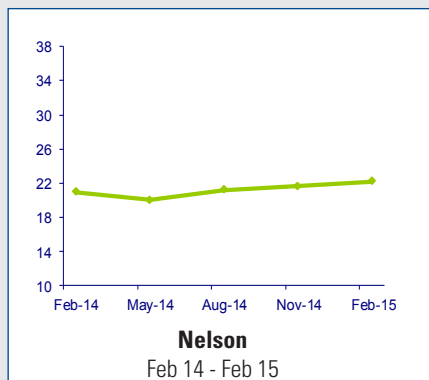
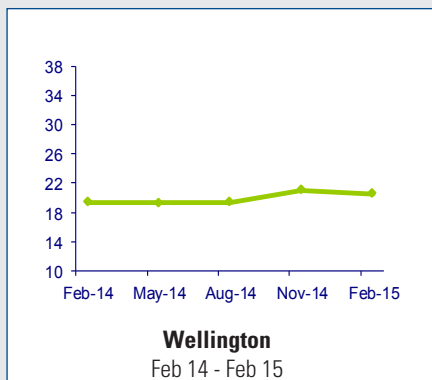
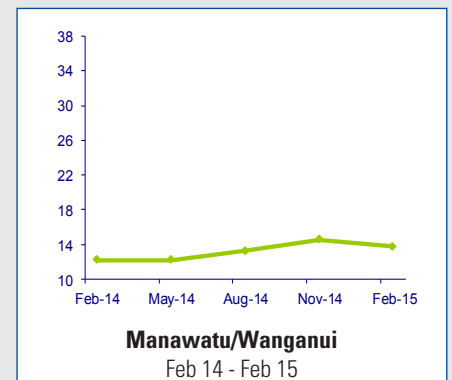
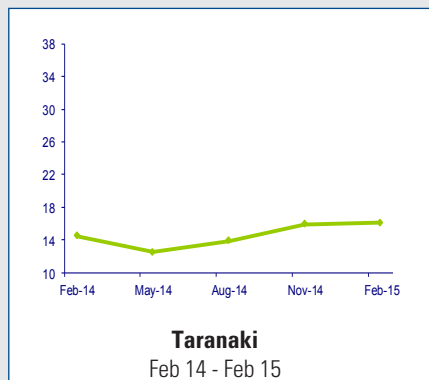
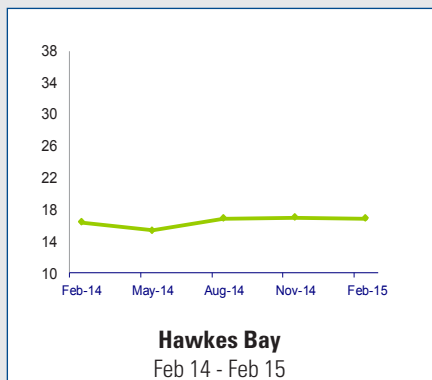
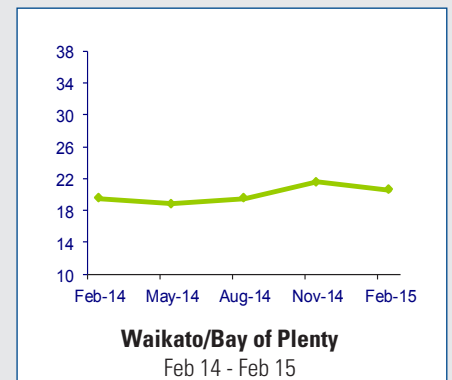
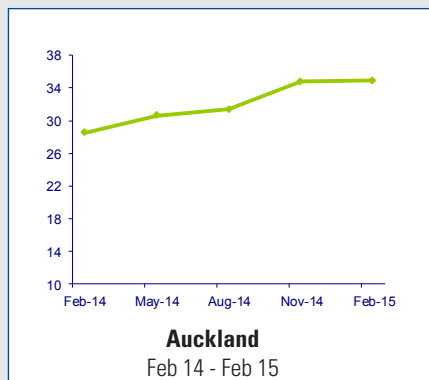
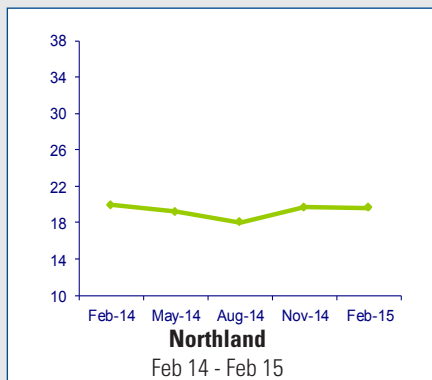


# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



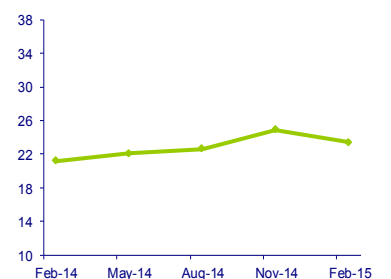
HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	Nov 2014	Feb 2015	
				improvement
				decline
	Northland	19.7	19.6	1.8%
	Auckland	34.8	34.9	- 22.3%
	Waikato/Bay of Plenty	21.6	20.6	- 5.3%
	Hawke's Bay	17.0	16.9	- 2.6%
	Taranaki	15.9	16.1	- 10.8%
	Manawatu/Wanganui	14.5	13.7	- 12.0%
	Wellington	21.0	20.5	- 5.3%
	Nelson/Marlborough	21.6	22.2	- 5.8%
	Canterbury/Westland	23.7	22.7	- 6.8%
	Otago	15.2	15.8	- 12.8%
	Central Otago Lakes	34.7	31.3	- 17.7%
	Southland	11.6	11.1	- 2.2%
	New Zealand	24.9	23.4	- 10.4%

## NATIONAL HOME AFFORDABILITY INDEX (A LOW INDEX EQUALS IMPROVED AFFORDABILITY)



## REGIONAL AFFORDABILITY INDEX

**New Zealand**  
Feb 14 - Feb 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 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. Professor Paul Gallimore directs the Massey University Real Estate Analysis Unit (MUREAU).

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