

# HOME AFFORDABILITY REPORT

QUARTERLY SURVEY MARCH 2016, VOL 26, NO.1

## REGIONAL TRENDS VARY AS EFFORTS TO COOL THE AUCKLAND MARKET TAKE EFFECT

The national home affordability index has improved again and is close to the level of the same quarter two years ago. Annual percentage change in most regions, with the exception of Central Otago Lakes, has improved over the past three month period. An overall modest annual improvement of 3.1% for Auckland is good news for policy makers intent on moderating persistent housing inflation experienced in the last few years.

In the quarterly data we observe that gains from one quarter can be negated in the next quarter. Improvements in housing affordability in the Hawke's Bay reported over the last three quarters reversed with 6.7% deterioration in March 2016 as asking prices increased in response to demand. Similarly, an improvement of 10.5% in Central Otago Lakes in the September quarter was almost negated by declines in the last two quarters. Conversely, Waikato/Bay of Plenty's decline of 6.1% at the end of 2015 has halved with a 3.1% improvement this quarter. Between June 2014 and June 2015, there were five quarters of worsening home affordability for Auckland, at an average of 6.2% per quarter. Now, the pendulum appears to be cautiously swinging the other way and over the last three quarters Auckland's affordability index has improved, averaging 4.2% per quarter.

The national median house price of \$450,000 is a drop of \$9,500 (2.1%) on last quarter figures, however, prices have still risen by \$20,000 (4.65%) over the last year. Auckland's median value of \$750,000 is a fall of \$15,000 (2.0%) compared to last quarter but represents a \$75,000 (11.11%) climb over 12 months. Canterbury and Otago are the only other regions besides Auckland to see a drop in median sales price this quarter. Hawke's Bay and Central Otago Lakes show the biggest rise over the past three months – 10.4% and 15.4% respectively. This fact largely contributes to the quarterly deterioration of affordability in these regions and appears driven by demand underpinned by a buoyant tourist market, and a ripple effect as some Aucklanders vacate the city for a more relaxed lifestyle, or seek better investment returns.

Contributing to the overall improvement in housing affordability is the continuing fall in mortgage interest rates since January 2015. As speculated in the previous report, the Reserve Bank governor, reduced the Official Cash Rate by 25 basis points to a new low of 2.25% on March 10, 2016. The improvement in interest rates looks likely to be sustained as the OCR cut is incorporated into the debt servicing costs for home mortgages. While lower interest rates may add pressure to the housing market and push prices higher, the Governor is of the opinion that LVR measures taken to moderate the Auckland housing market appear to be having an impact. He also signalled a further drop in the OCR later this year due to flat inflation figures and a worsening international economic outlook.

Another factor in the affordability index is wage levels around the country. Overall, there has been a modest 3% increase over the last 12 months and 1% for the last quarter. All regions show annual increase in wages. Waikato/Bay of Plenty (4.8%); Nelson/Marlborough (4.7%), and Southland (4.3%) have the biggest percentage change in annual wages. With the exception of Hawke's Bay (-0.3%), all regions show a wage increase for the last quarter with Central Otago Lakes (3%) and Northland (2.7%) being the top performers. Auckland wage levels have languished at a mere 2.5% year on year and 0.8% over the past three months.

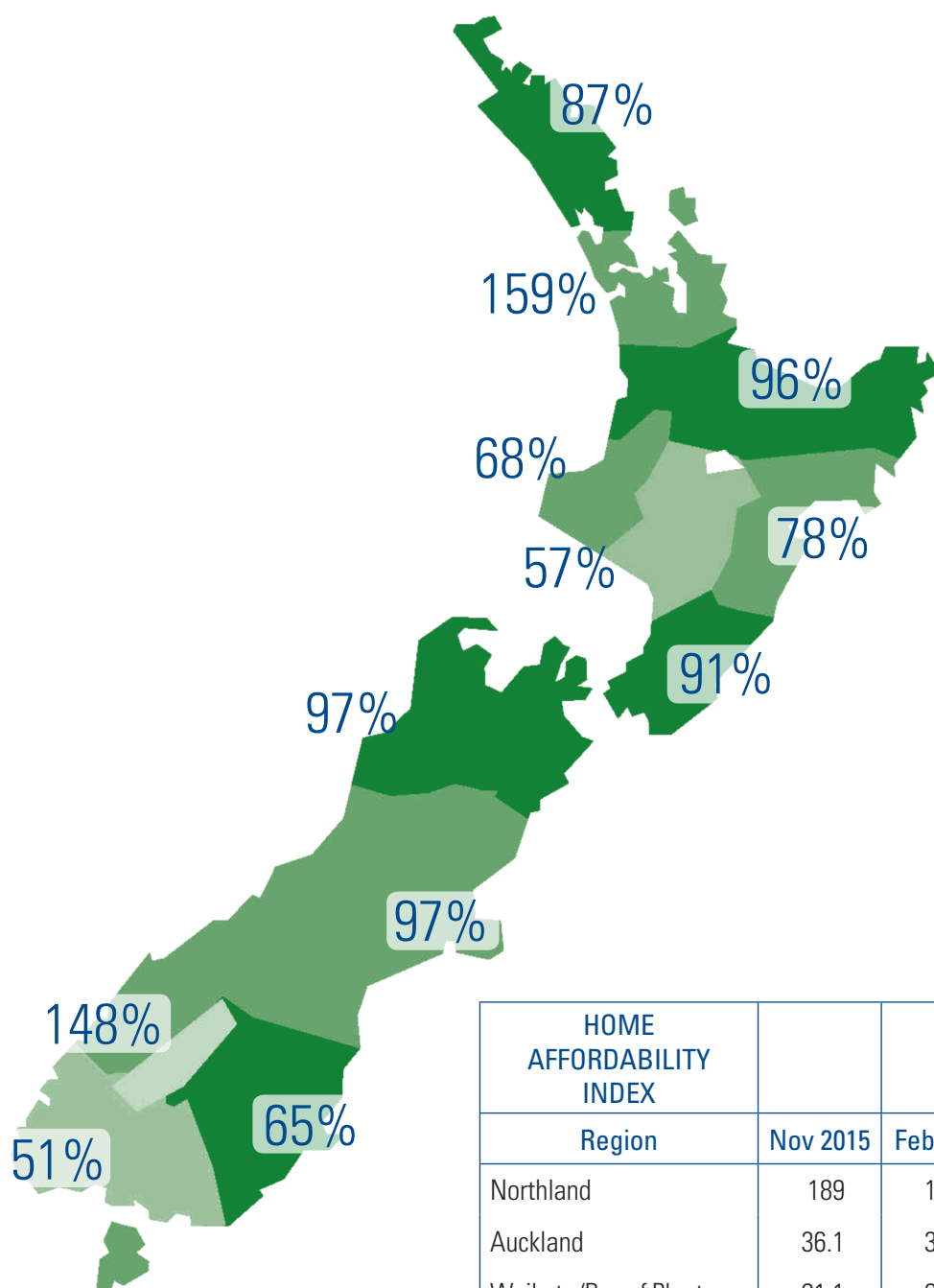
Despite minimal improvements in affordability in Auckland, the margin by which it exceeds the national figure remains at a record high of 59% less affordable than the rest of NZ. All other regions with the exception of Central Otago Lakes (48% less affordable) remain more affordable than the national average. The two most affordable regions continue to be Southland and Manawatu/Whanganui (51% and 57% of the national average).

## KEY POINTS

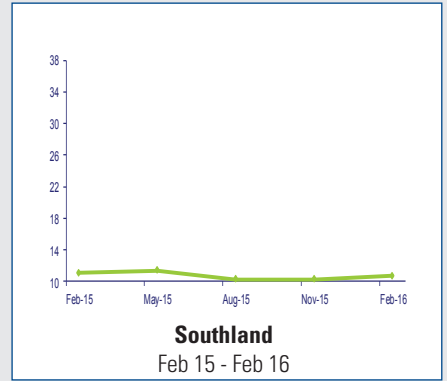
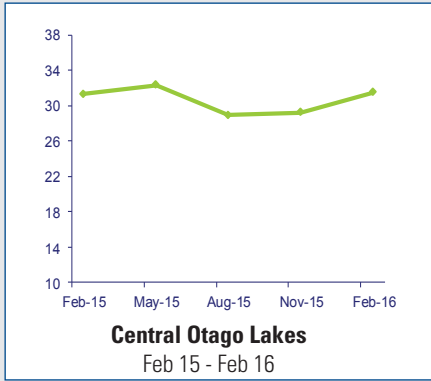
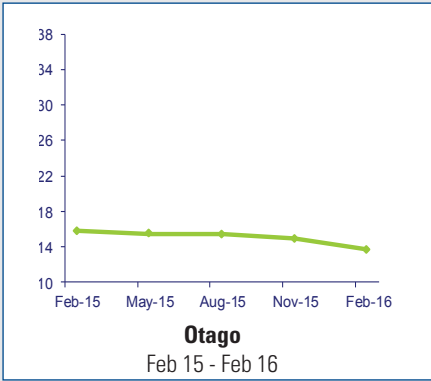
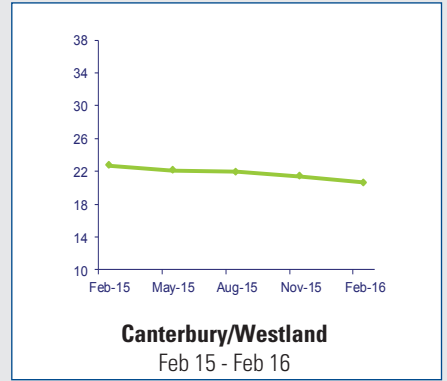
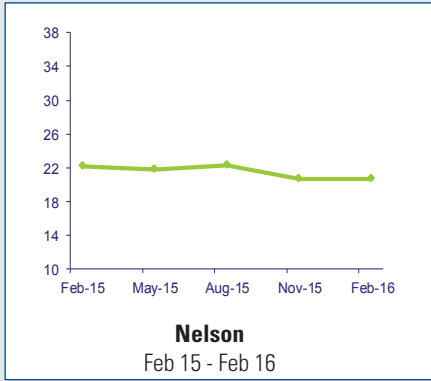
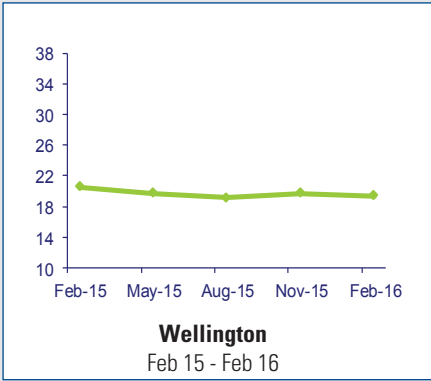
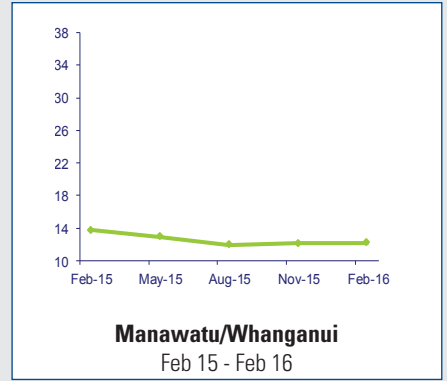
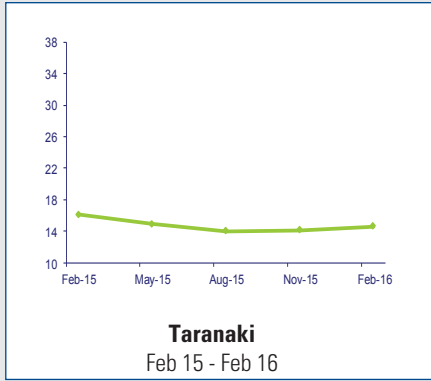
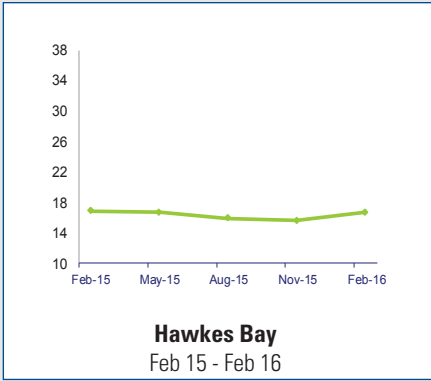
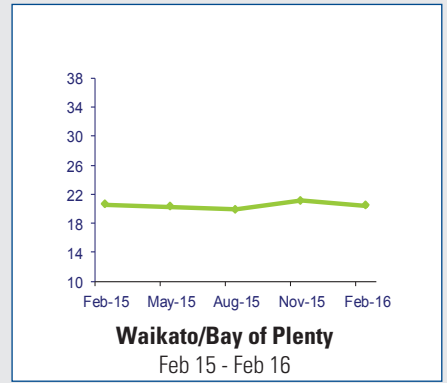
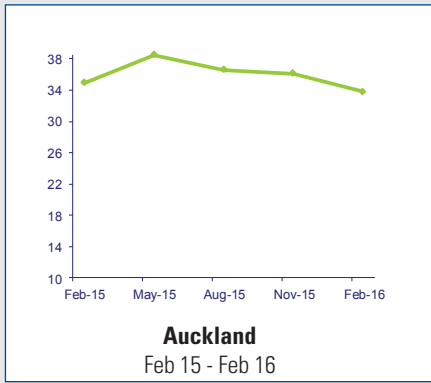
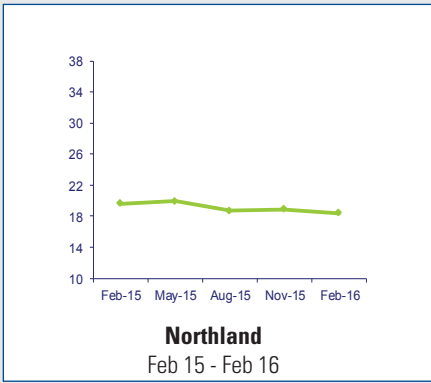
- A 9.2% annual improvement in affordability across the nation continues the trend of the last three quarterly periods
- All regions with the exception of Central Otago Lakes show an improvement in the national affordability index since this time last year
- Hawke's Bay region reversed improvement in the last two quarters with a decline in affordability of 6.7%
- Central Otago Lakes; Taranaki; Manawatu/Whanganui, and Southland also report deterioration in affordability for the first quarter of 2016
- Auckland sustains improvement in affordability for the third consecutive quarter, contributing to a modest annual improvement of 3.1%.
- Mortgage interest rates continue to fall to 0.64% less than 12 months ago. The latest OCR drop of 0.25% will flow through to consumers in the June quarter data.



# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



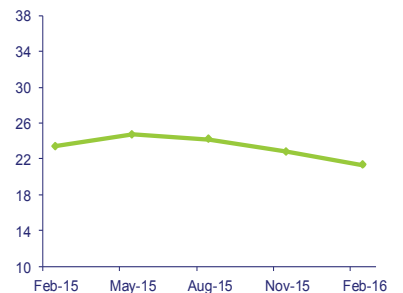
HOME AFFORDABILITY INDEX	PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS			
	Region	Nov 2015	Feb 2016	improvement
Northland	189	18.4	6.0%	-
Auckland	36.1	33.8	3.1%	-
Waikato/Bay of Plenty	21.1	20.4	0.6%	-
Hawke's Bay	15.6	16.7	1.4%	-
Taranaki	14.1	14.6	9.7%	-
Manawatu/Whanganui	12.1	12.2	11.3%	-
Wellington	19.7	19.4	4.9%	-
Nelson/Marlborough	20.7	20.7	6.7%	-
Canterbury/Westland	21.4	20.6	9.1%	-
Otago	14.9	13.7	12.9%	-
Central Otago Lakes	29.2	31.5	-	0.9%
Southland	10.3	10.7	3.5%	-
New Zealand	22.8	21.3	9.2%	-



# REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)

**New Zealand**  
Feb 15 - Feb 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 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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**Thanks to Debbie Griffin for her research assistance.**

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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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