

# HOME AFFORDABILITY REPORT

## QUARTERLY SURVEY DECEMBER 2020, VOL 31, NO.3

OVERALL DECLINE IN HOME AFFORDABILITY WAS OBSERVED IN THIS QUARTER. THIS WAS BROADLY DUE TO INCREASES IN MEDIAN HOUSE PRICES IN ALL REGIONS INCLUDING AUCKLAND DURING THIS QUARTER AND DECREASE IN INCOME.

### QUARTERLY RESULTS:

- At the national aggregate level, affordability has declined, attributed in this past quarter by median house prices increased in majority of the regions although there was further reduction in mortgage interest rates, incomes have also decreased in some regions as well as nationally by 2.9% in this quarter.
- The greatest increase in median house prices (in percentage terms) has for the last quarter occurred in Marlborough (18.8% or \$92,750), Tasman (17.3% or \$114,400) followed by Gisborne (15.2% or \$70,000) and Bay of Plenty (13.2% or \$88,000). Most of the regions (14 out of 16) showed an increase in house prices in this quarter except reduction in West Coast (-3.5% or -\$9,000) and Northland (-0.2% or -\$1,000).
- At the national level, median house prices saw a moderate increase overall (11% or \$74,000) for the quarter.
- Overall affordability has declined in this quarter (9.7% nationally). Affordability has been generally declined, with 6 of the 16 regions seeing an improvement and remaining 10 declining in affordability. In this quarter, the most significant changes being seen in Manawatu/Whanganui (24% decline) as compared to last quarter (only 4.2% improvement) and Taranaki (12.3% improvement). The changes in affordability are due to an increase in quarterly house prices in majority of the regions.
- Interest rates further decreased this quarter, down by 0.15% to 3.55% as at October 2020. This is a return to the medium-term trend of interest rate reductions, after further decrease in the previous quarter by the Reserve Bank.
- Incomes have slightly decreased by 2.9% in aggregate during the quarter, with 10 of the 16 regions seeing an increasing and remaining 6 decreasing. The largest changes in income in the quarter occurred in Gisborne (17.4% increase).

### YEARLY RESULTS:

- A national 18.9% annual increase in median sales price (\$119,000 increase to \$749,000) is partially offset by a 19.50% decrease in mortgage interest rates, moving to 3.55% from 4.41% this time last year. This should have helped improved the affordability for the 12-month period but overall nationally affordability was slightly decreased by 0.6%.
- This decline in affordability at the national level in the past 12 months is reflected in only 4 out of 16 regions and remaining 12 regions showing a slight improvement in affordability. The greatest changes for the year are reported in Marlborough 12.5% decline and Taranaki 16.6% improvement respectively.

### GENERAL TRENDS

- National House price to income ratios have not improved this quarter with house prices moving from 10.4 to 10.9 times annual wages.

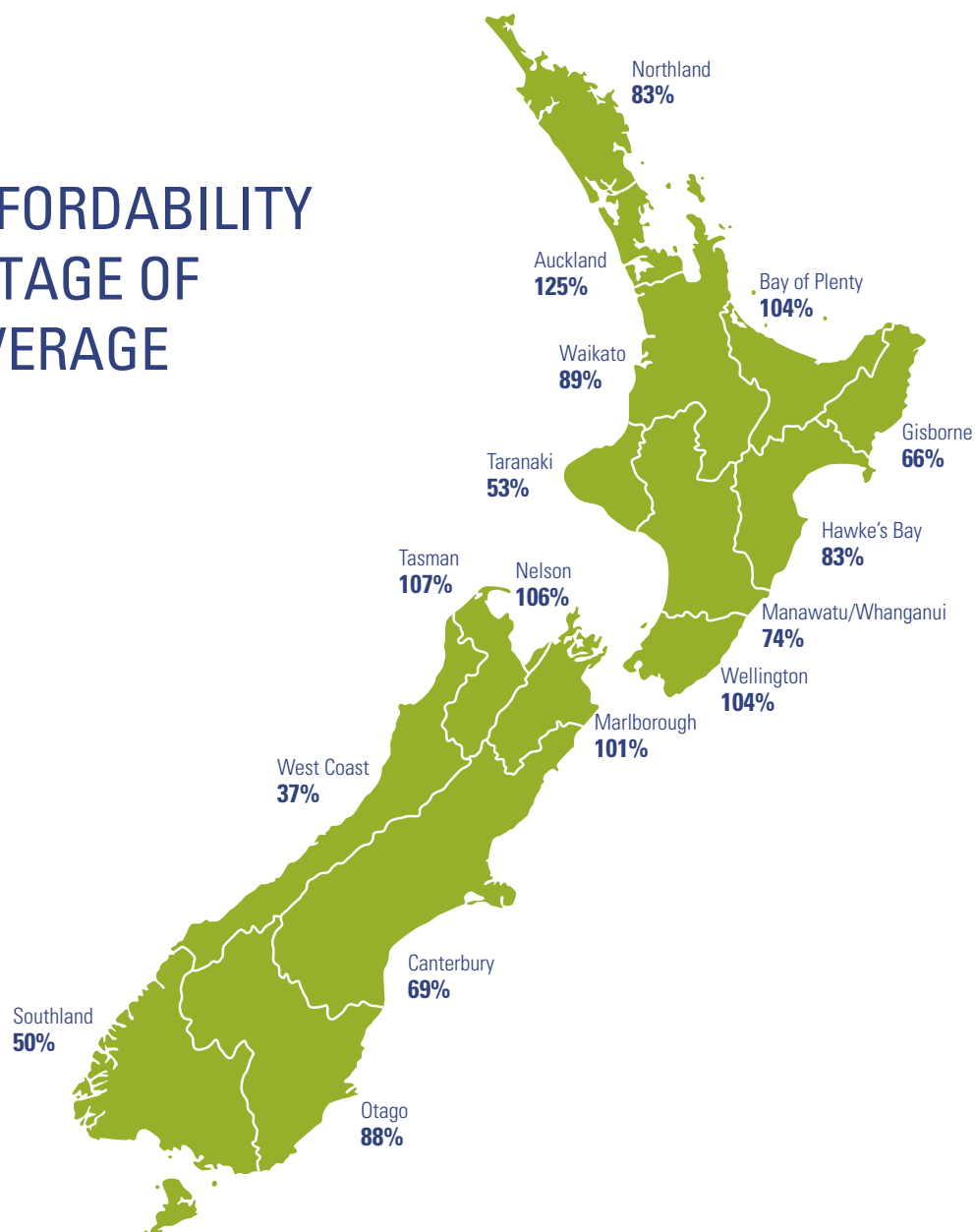
### QUARTERLY RESULTS:

- Affordability this quarter declined nationally by 9.7% with a quarterly increase in median house prices of 11%.
- This quarter, the primary cause of the decline in affordability has been due to further increase in median house prices in majority of the regions.

### YEARLY RESULTS:

- The yearly results show an annual result of a slight decline in affordability at a national level of 0.6%, reflected in few regions.
- The yearly drivers of this change include an 18.9% increase in National median house prices in all regions. Although there was a 19.50% decrease in residential mortgage rates, now at 3.55% compared to 4.41% a year ago. Incomes have also decreased by 3.6% nationally over this past year.

# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



Region	HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
	Nov 2019	Aug 2020	Nov 2020	Improvement	Decline	Improvement	Decline
Northland	19.9	19.6	18.2	8.9%		7.3%	
Auckland	29.8	27.1	27.4	8.2%			1.2%
Waikato	21.1	19.7	19.5	7.6%		1.0%	
Bay of Plenty	22.8	20.8	21.5	5.6%			3.3%
Gisborne	16.3	15.3	14.4	11.3%		5.9%	
Hawke's Bay	18.8	18.3	18.3	2.7%			0.0%
Manawatu/Whanganui	14.9	13.1	16.3		9.7%		24.0%
Taranaki	13.9	13.2	11.6	16.6%		12.3%	
Wellington	21.4	19.1	22.7		6.3%		18.6%
Tasman	25.1	20.9	23.5	6.3%			12.4%
Nelson	24.3	21.0	23.2	4.4%			10.7%
Marlborough	19.6	18.6	22.1		12.5%		18.9%
West Coast	7.4	8.0	8.0		9.1%		0.9%
Canterbury	17.0	15.5	15.1	11.4%		3.0%	
Otago	20.0	18.4	19.3	3.7%			5.0%
Southland	12.3	12.4	10.9	11.2%		11.9%	
All Regions	21.8	20.0	21.9		0.6%		9.7%

## DATA SOURCES

The Massey Home Affordability Index takes into account the cost of borrowing (mortgage interest rates) as well as house prices and wage levels.

Note that the regional breakdown within this report and the March report has changed from earlier editions. The regional breakdown in this current report is unable to be fully compared to reports prior to March 2019. The regional breakdown contained herein for the 3 month and 12 month periods are unable to be directly compared with earlier reports. Please contact the authors for comparisons with earlier editions of this report. Waikato/Bay of Plenty/Gisborne district is now 3 separate districts: Waikato; Bay of Plenty; Gisborne. Nelson/Marlborough/Kaikoura district is now comprised within Tasman; Nelson; Marlborough districts. Kaikoura is now contained within Canterbury district. Canterbury/Westland district is now 2 districts: Canterbury; West Coast. Central Otago Lakes district is now contained within Otago district.

## 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

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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). This quarter's rate is 4.92%, which is a 12-month negative % change of 3.15%.

## 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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