

# HOME AFFORDABILITY REPORT

## QUARTERLY SURVEY SEPTEMBER 2020, VOL 31, NO.2

### OVERALL IMPROVEMENT IN HOME AFFORDABILITY WAS OBSERVED IN THIS QUARTER. THIS WAS BROADLY DRIVEN BY FURTHER DECREASES IN INTEREST RATES AND THE REMOVAL OF LOAN-TO-VALUE RESTRICTIONS (LVRs) BY THE RESERVE BANK

#### QUARTERLY RESULTS:

- At the national aggregate level, affordability has continued to improve, attributed in this past quarter by further reduction in mortgage interest rates and the removal of loan-to-value restrictions (LVRs) by the Reserve Bank. However, incomes have decreased in most of the regions, overall decreased in this quarter by 2.8%.
- The greatest increase in median house prices (in percentage terms) has for the last quarter occurred in West Coast (15.5% or \$34,000), Otago (14.8% or \$74,900) followed by Northland (11.3% or \$60,000) and Gisborne (10.8% or \$45,000). Most regions (14 out of 16) showed an increase in this quarter in house prices except reduction in Tasman (-5.9% or -\$41,500) and Marlborough (-0.5% or -\$2,500).
- At the national level, median house prices saw a moderate increase overall (8.9% or \$55,000) for the quarter.
- Overall affordability has improved this quarter (1% nationally). Affordability has been generally observed, with 13 of the 16 regions seeing an improvement and remaining 3 declining in affordability. In this quarter, the most significant changes being seen in Tasman (17.1% improvement) as compared to last quarter (only 2.6% improvement) and Otago (4.9% decline). These changes in affordability are due to increase in quarterly house prices in majority of the regions.
- Interest rates further decreased this quarter, down by 0.49% to 3.70% as at July 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 2.8% in aggregate during the quarter, with majority of the regions decreasing. The largest changes in income in the quarter occurred in Taranaki (6% decrease).

#### YEARLY RESULTS:

- A national 16.4% annual increase in median sales price (\$95,000 increase to \$685,000) is partially offset by a 20.77% decrease in mortgage interest rates, moving to 3.70% from 4.67% this time last year. This has helped improved the affordability for the 12-month period (7.6% improvement).
- This improvement in affordability at the national level in the past 12 months is reflected in 15 out of 16 regions except Southland showing a slight decline in affordability. The greatest changes for the year are reported in Tasman and Nelson by 19% and 18.4% improvement respectively.

### GENERAL TRENDS

- National House price to income ratios have not improved this quarter with house prices moving from 9.3 to 10.4 times annual wages.

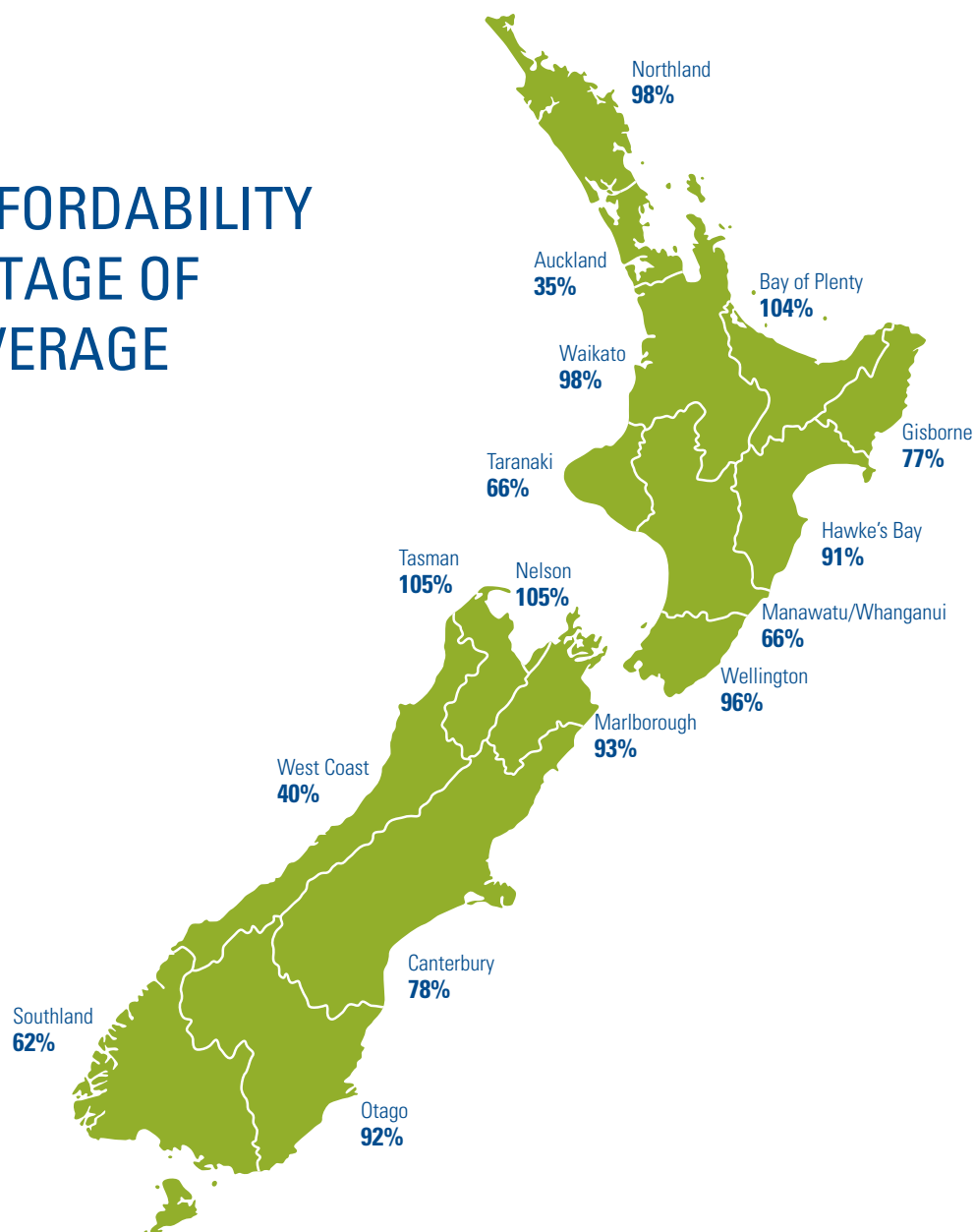
#### QUARTERLY RESULTS:

- Affordability this quarter improved nationally by only 1% with a quarterly increase in median house prices of 8.9%.
- This quarter, the primary cause of the improvement in affordability has been further decrease in mortgage interest rates and the removal of loan-to-value restrictions (LVRs) by the Reserve Bank.

#### YEARLY RESULTS:

- The yearly results show an annual result of a solid improvement in affordability at a national level of 7.6%, reflected in 15 regions.
- The yearly drivers of this change include a 20.77% decrease in residential mortgage rates, now at 3.70% compared to 4.67% a year ago. However, incomes have decreased by 0.2% nationally over this past year.

# 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	Aug 2019	May 2020	Aug 2020	Improvement	Decline	Improvement	Decline
Northland	21.5	19.4	19.6	8.9%			1.0%
Auckland	29.1	28.5	27.1	7.2%		5.1%	
Waikato	21.2	20.4	19.7	7.2%		3.8%	
Bay of Plenty	23.8	21.2	20.8	12.5%		2.0%	
Gisborne	17.9	15.6	15.3	14.1%		1.4%	
Hawke's Bay	19.3	18.4	18.3	5.6%		0.8%	
Manawatu/Whanganui	14.9	13.7	13.1	11.8%		4.2%	
Taranaki	14.0	13.3	13.2	5.3%		0.6%	
Wellington	22.0	20.2	19.1	13.0%		5.0%	
Tasman	25.8	25.2	20.9	19.0%		17.1%	
Nelson	25.7	22.3	21.0	18.4%		6.0%	
Marlborough	19.4	20.3	18.6	4.2%		8.6%	
West Coast	8.7	7.9	8.0	7.9%			1.0%
Canterbury	17.0	15.6	15.5	8.8%		0.7%	
Otago	19.8	17.5	18.4	7.3%			4.9%
Southland	12.4	12.5	12.4		0.1%	1.0%	
All Regions	21.6	20.2	20.0	7.6%		1.0%	

## 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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