

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY DECEMBER 2018, VOL 28, NO.4

DETERIORATION IN HOME AFFORDABILITY DRIVEN BY RISING QUARTERLY HOUSE PRICES OFFSETTING RISING WAGES AND LOWER MORTGAGE RATES

QUARTERLY RESULTS:

Affordability this quarter declined nationally by 2.2%, driven by a quarterly increase in median house prices in all regions. This increase was 4.6% on average, partially offset by increases in wages and a reduction in mortgage interest rates. The greatest increase in median house prices (in percentage terms) occurred in Southland (15.5% or \$36,250), followed by Northland (13.8% or \$62,500) and Taranaki (13.7% or \$46,500). Auckland showed a modest increase of 1.6% (\$13,000) for the quarter. While overall affordability has resumed its deteriorating trend, two regions saw an improvement; these were Auckland (0.8% improvement) and Waikato (2.1% improvement).

Interest rates eased slightly in this quarter showing a 3% improvement, down by 0.09% to 4.92% as at October 2018. This provided some relief from house price increases.

Incomes increased by 0.5% on average during the quarter, with four regions (Hawke's Bay, Wellington, Central Otago Lakes & Southland seeing decreases). On the upside: Nelson/Marlborough recorded a 2.3% increase, and Taranaki a 1.0% increase.

YEARLY RESULTS:

On an annual basis home affordability for all regions has been almost static with a slight improvement of 0.1%. However, at the regional level six regions have improved and six regions have declined. The biggest improvements in affordability include the two most unaffordable regions. These are Auckland (7.5%) and Central Otago Lakes (5.3%). Canterbury/Westland also had a significant improvement of 9.3%. The greatest declines in affordability for the 12 month period were seen in Northland (16.1%), Nelson/Marlborough (9.6%), and Otago (8.1%).

The yearly drivers of change include a 6.5% increase in median house price values nationally. This is partially offset by a modest percentage decrease in residential mortgage rates, to (again) the lowest ever value in the 2 year-fixed data series at 4.92% and a steady increase in wages.

GENERAL TRENDS:

In index point terms, there has been no change in the top five regions for home affordability: Southland (11.7 index points), Taranaki (14.2 index points), Manawatu/ Whanganui (14.4 index points), Otago (17.1 index points) and Canterbury/Westland (18.0 index points), though all have seen an increase in the index over the past year. Central Otago Lakes (37.4 index points) and Auckland/Thames/Coromandel (33.1 index points) remain the least affordable regions in the country, 60% and 42% respectively less affordable than the rest of New Zealand. The gap has significantly widened for Central Otago Lakes, up from 50%.

After a short reprieve, home affordability has continued to decline in half of the New Zealand's regions. Recent improvements in incomes and interest rates are helping affordability, but these are still being outstripped by increases in median house prices in many locations. Central Otago Lakes, including Queenstown (37.4 Index Points), further increased its position as the most unaffordable region in New Zealand with median house prices at 14.6 annual wages.

KEY POINTS

QUARTERLY

- Nationwide, the previous quarter's decline in median house sale prices reversed this quarter, increasing in all regions on average by 4.6%.
- Despite an increase in wages and a decline in mortgage interest rates, affordability worsened this quarter declining by 2.2% nationally. The exceptions were Auckland (0.8% improvement) and Waikato (2.1% improvement).

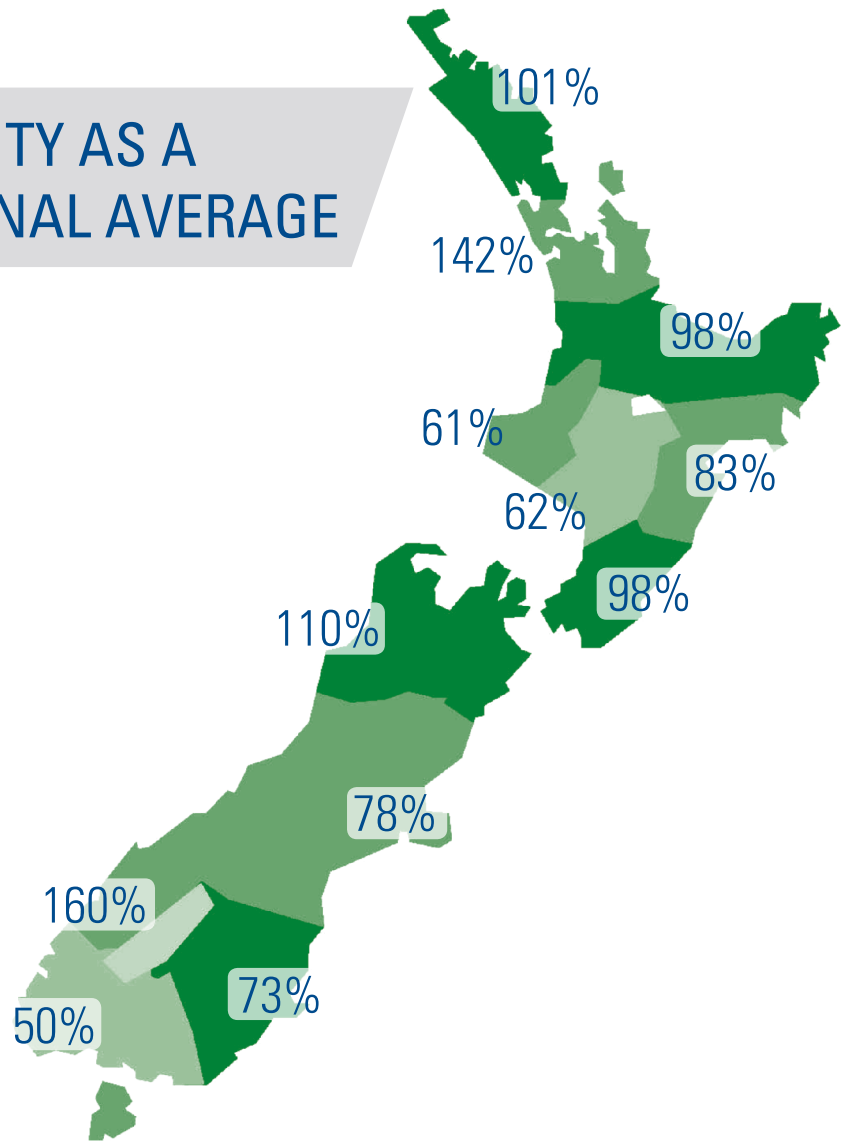
YEARLY

- A national 6.5% annual increase in median sales price was partially offset by a decrease in mortgage rates of approximately 3%. Combined with a steady increase in wages, affordability over the 12 month period remains almost static.
- At the regional level, however, there have been some significant shifts in affordability with improvements in some areas including Auckland and Central Otago Lakes. The greatest declines in affordability were seen in Northland, Nelson/Marlborough, and Otago.

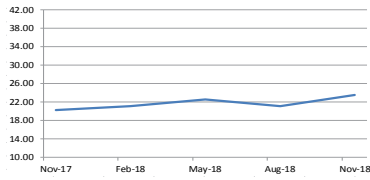
GENERAL TRENDS

- Central Otago Lakes, including Queenstown (37.4 Index Points), retains its position as the most unaffordable region in New Zealand with median house prices at 14.6 times annual wages.
- National House price to income ratios have reversed the previous quarter's improvement with house prices moving from 8.8 back to 9.1 times annual wages.

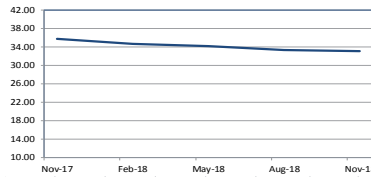
REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



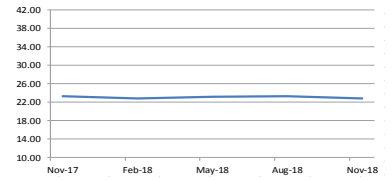
HOME AFFORDABILITY INDEX				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	November 2017	August 2018	November 2018	Improvement	Decline	Improvement	Decline
Northland	20.3	21.2	23.6		16.1%		11.4%
Auckland	35.7	33.3	33.0	7.5%		0.8%	
Waikato/Bay of Plenty	23.3	23.3	22.8	1.9%		2.1%	
Hawke's Bay	18.2	18.1	19.4		6.8%		7.3%
Taranaki	14.8	12.8	14.2	4.1%			10.4%
Manawatu/Whanganui	14.1	14.3	14.4		1.9%		0.7%
Wellington	21.7	22.3	22.9		5.2%		2.4%
Nelson/Marlborough	23.4	25.1	25.7		9.6%		2.2%
Canterbury/Westland	20.2	18.0	18.3	9.3%			1.6%
Otago	15.9	16.4	17.1		8.1%		4.5%
Central Otago Lakes	39.5	34.3	37.4	5.3%			9.2%
Southland	12.1	10.3	11.7	3.1%			13.9%
New Zealand	23.4	22.8	23.3	0.1%			2.2%



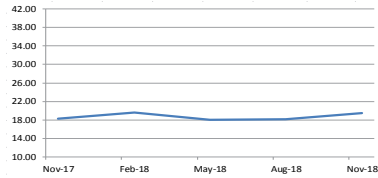
Northland
Nov 17 - Nov 18



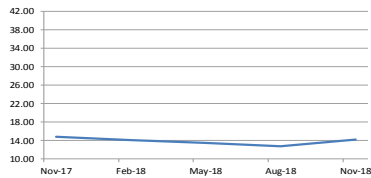
Auckland
Nov 17 - Nov 18



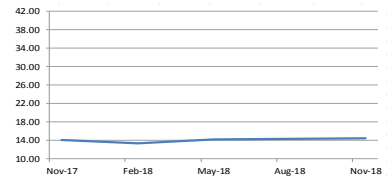
Waikato/Bay of Plenty
Nov 17 - Nov 18



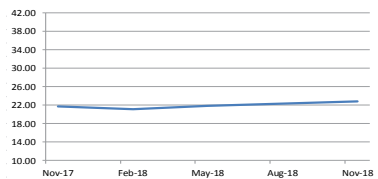
Hawke's Bay
Nov 17 - Nov 18



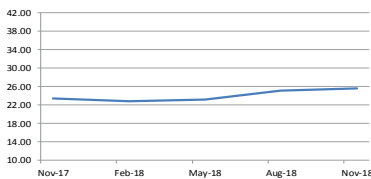
Taranaki
Nov 17 - Nov 18



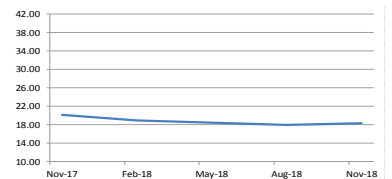
Manawatu/Whanganui
Nov 17 - Nov 18



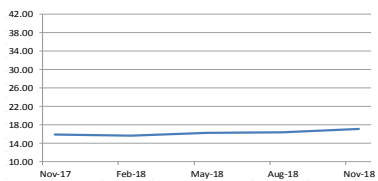
Wellington
Nov 17 - Nov 18



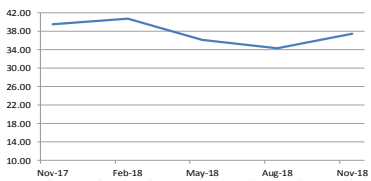
Nelson
Nov 17 - Nov 18



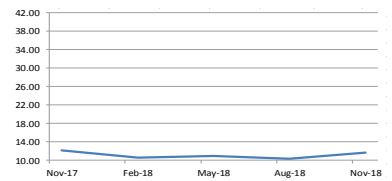
Canterbury/Westland
Nov 17 - Nov 18



Otago
Nov 17 - Nov 18



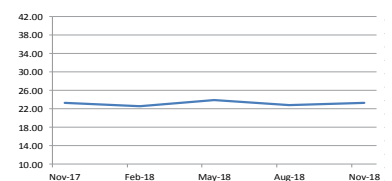
Central Otago Lakes
Nov 17 - Nov 18



Southland
Nov 17 - Nov 18

REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)



New Zealand
Nov 17 - Nov 18

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. 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 in 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%.

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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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