

# HOME AFFORDABILITY REPORT

QUARTERLY SURVEY DECEMBER 2016, VOL 26, NO.4

## RISING HOUSE PRICES STILL DRIVE HOUSING AFFORDABILITY METRICS

The Massey Affordability Index takes into account the cost of borrowing as well as house prices and wage levels. This December quarter has seen a decline in affordability driven mainly by the continued spillover of the Auckland house price levels into the regions. Overall, home affordability declined by 2.8% in this quarter with some big declines in the provincial centres of Taranaki (12%); Northland (9.7%); Southland (6.7%); Nelson/Malborough (6.2%); and Manawatu/Wanganui (6%). Affordability did improve in this quarter in Central Otago Lakes and Auckland. Central Otago Lakes improved by 7.3% and Auckland improved slightly by 1.1%. Auckland and Central Otago Lakes do, however, remain the least affordable regions in the country, 56% and 45% less affordable than the rest of New Zealand.

On a year on year basis to December we see mixed results with predominantly slight improvements in affordability in some regions of the country but some significant declines in other regions. This is largely as a result of falling mortgage interest rates in those regions where affordability has improved, but continuing rising annual house prices in other regions has more than outweighed the interest rate factor. On an annual basis Canterbury has the highest magnitude of improvement (9.4% more affordable) and Central Otago Lakes has the highest magnitude of decline (11% worse off). Canterbury's improving affordability can be attributed to lower house price increases over the year, and the decline in affordability in Central Otago Lakes exacerbated by the booming tourism industry putting stress on the supply of affordable housing. Southland and Manawatu/Wanganui remain the country's most affordable regions.

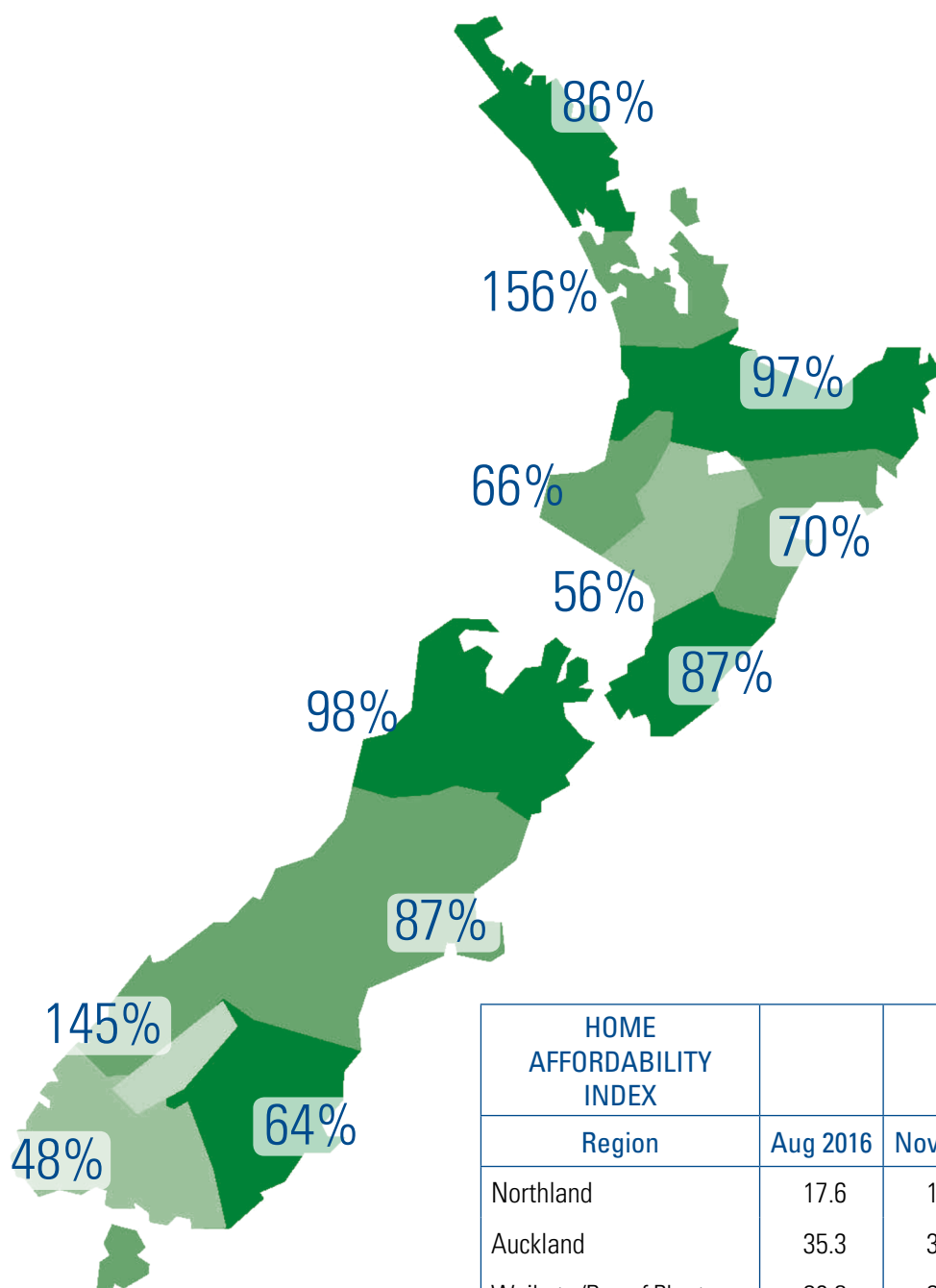
Notwithstanding a mostly mixed annual and declining quarterly affordability result in our index, house prices to wages remain very high and this factor continues to place strain on first home buyers, especially in the two most expensive regions. Across New Zealand as a whole our house price to annual wages ratio shows a slight deterioration with the overall ratio increasing by 0.4 to 8.7. Auckland saw a smaller deterioration in this ratio, increasing by 0.1 to 13.6. However there has been a significant improvement in this ratio in Central Otago Lakes falling by 0.9 to 12.6.

Steady reductions in the OCR have pushed borrowing costs lower, easing the burden of house purchase up until now. However, more stringent deposit requirements and tougher requirements for bank lending may start to reverse the trend. This coupled with continued demand from a growing population and investors could lead again to a deterioration in housing affordability. It will be interesting to see how the downward quarterly percentage change of house prices in the high value regions of Auckland and Central Otago Lakes move as we head into 2017.

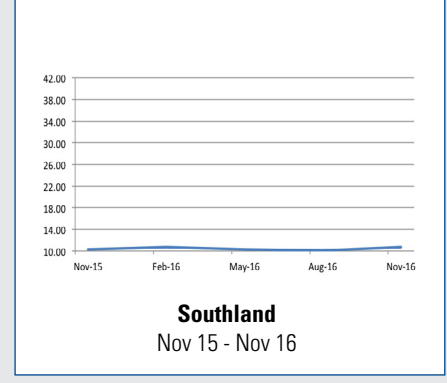
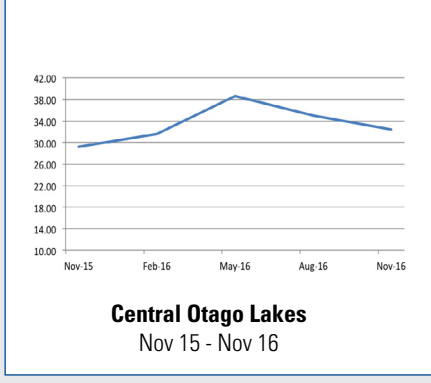
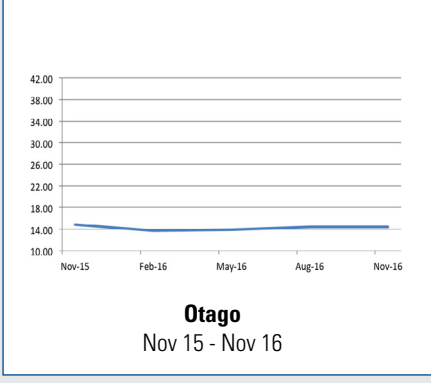
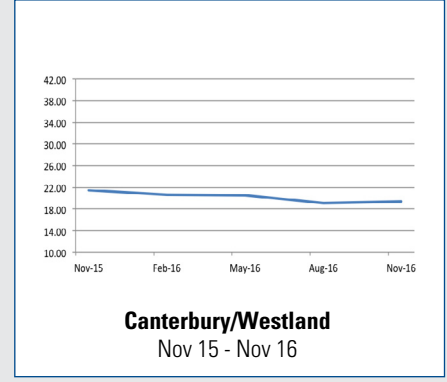
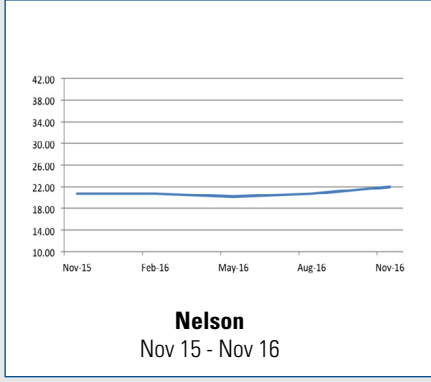
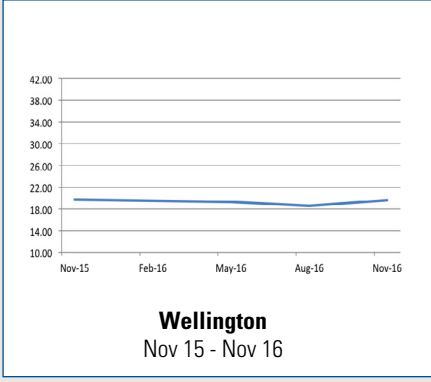
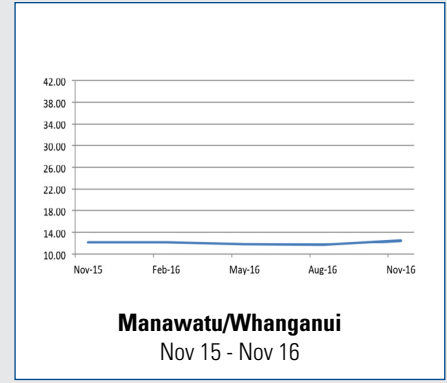
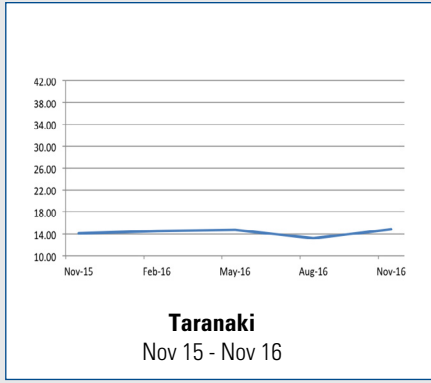
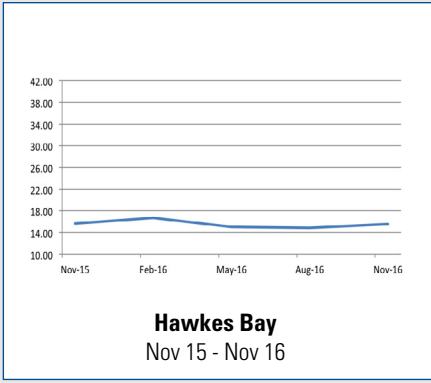
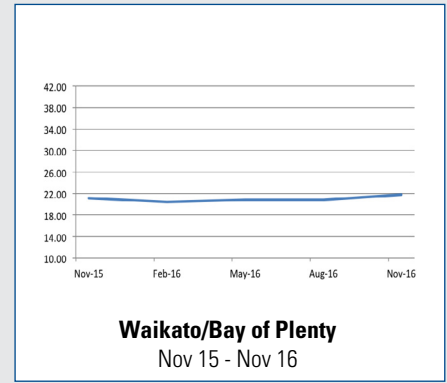
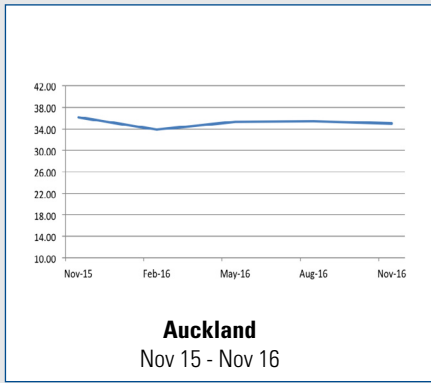
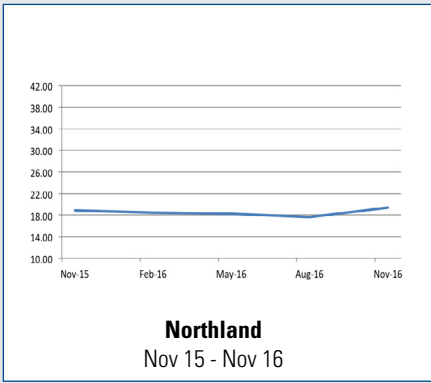
## KEY POINTS

- Nationwide median sales price shows a 13.2 % year on year increase, with a 5.7% increase this quarter.
- Auckland hits a new high median for the quarter of \$851,944 in November, sustaining the growth that has seen a \$86,944 increase year on year (11.4%)
- Most regions (nine) are surpassing Auckland's annual price increase – Northland (18.6%), Waikato (19.7%), Hawkes Bay (15.4%), Taranaki (19.5%), Manawatu/Wanganui ( 18%), Wellington (14.9%), Nelson/Marlborough/Kaikoura (24.3%), Central Otago Lakes (31.9%), and Southland (15.4%).
- Evidence of a limited slowdown in house prices as seen by one regional minor drop in median house prices over the last quarter – Central Otago Lakes (-2.2%).
- An annual 0.64% point drop in interest rates which equates to a 11% reduction in mortgage interest costs coupled with an increase in national wage data of 1.9% contributes to a modest year-on-year improvement in national affordability of 1.7%.

# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



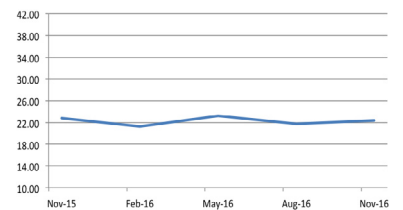
HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	Aug 2016	Nov 2016	Improvement
Northland	17.6	19.3	-	2.4%
Auckland	35.3	35.0	3.1%	-
Waikato/Bay of Plenty	20.8	21.8	-	3.3%
Hawke's Bay	14.9	15.6	0.4%	-
Taranaki	13.2	14.8	-	4.9%
Manawatu/Whanganui	11.7	12.4	-	2.5%
Wellington	18.6	19.6	0.9%	-
Nelson/Marlborough	20.7	22.0	-	6.1%
Canterbury/Westland	19.1	19.4	9.4%	-
Otago	14.4	14.4	3.3%	-
Central Otago Lakes	34.9	32.4	-	11.0%
Southland	10.0	10.7	-	3.7%
New Zealand	21.8	22.4	1.7%	-



# REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)

**New Zealand**  
Nov 15 - Nov 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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## 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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