

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY MARCH 2017, VOL 27, NO.1

METRICS SHOW THAT CENTRAL OTAGO LAKES HAS NOW SURPASSED AUCKLAND AS THE MOST UNAFFORDABLE REGION IN NEW ZEALAND

The Massey Home Affordability Index takes into account the cost of borrowing as well as house prices and wage levels. This March quarter has seen an improvement in national affordability driven mainly by the fall in house price levels in seven regions. Overall, home affordability improved by 7.0% in this quarter with some improvement in the regions of Auckland (7.5%); Waikato/Bay of Plenty (5.6%); Taranaki (11.3%); Manawatu/Wanganui (6.3%); Nelson/Marlborough (6.4%); Canterbury/Westland (5.3%); and Southland (10.7%). Affordability declined this quarter in Central Otago Lakes (35.0 index points) to surpass Auckland (32.3 index points) as the least affordable region in New Zealand. Central Otago Lakes home affordability declined quarterly by 8.2% and Auckland improved considerably by 7.5%. Auckland and Central Otago Lakes do, however, remain the least affordable regions in the country, 55% and 68% respectively less affordable than the rest of New Zealand.

On a year-on-year basis, over the 12 months to March, we see an improvement in affordability in most regions but some significant declines in Northland (-9.2%) and Central Lakes Otago (-11.2%). Improvements in affordability are generally as a result of continued low interest rates and slowing house prices. Central Otago Lakes has the highest annual magnitude of decline in affordability (-11%). This is arguably exacerbated by tourism industry demand; a shortage of housing supply; a trend in focus on 'high end' lifestyle living; speculative investment demand; releasing of capital from property elsewhere in the country; and largely stagnant wage increases. Southland and Manawatu/Wanganui remain the country's most affordable regions.

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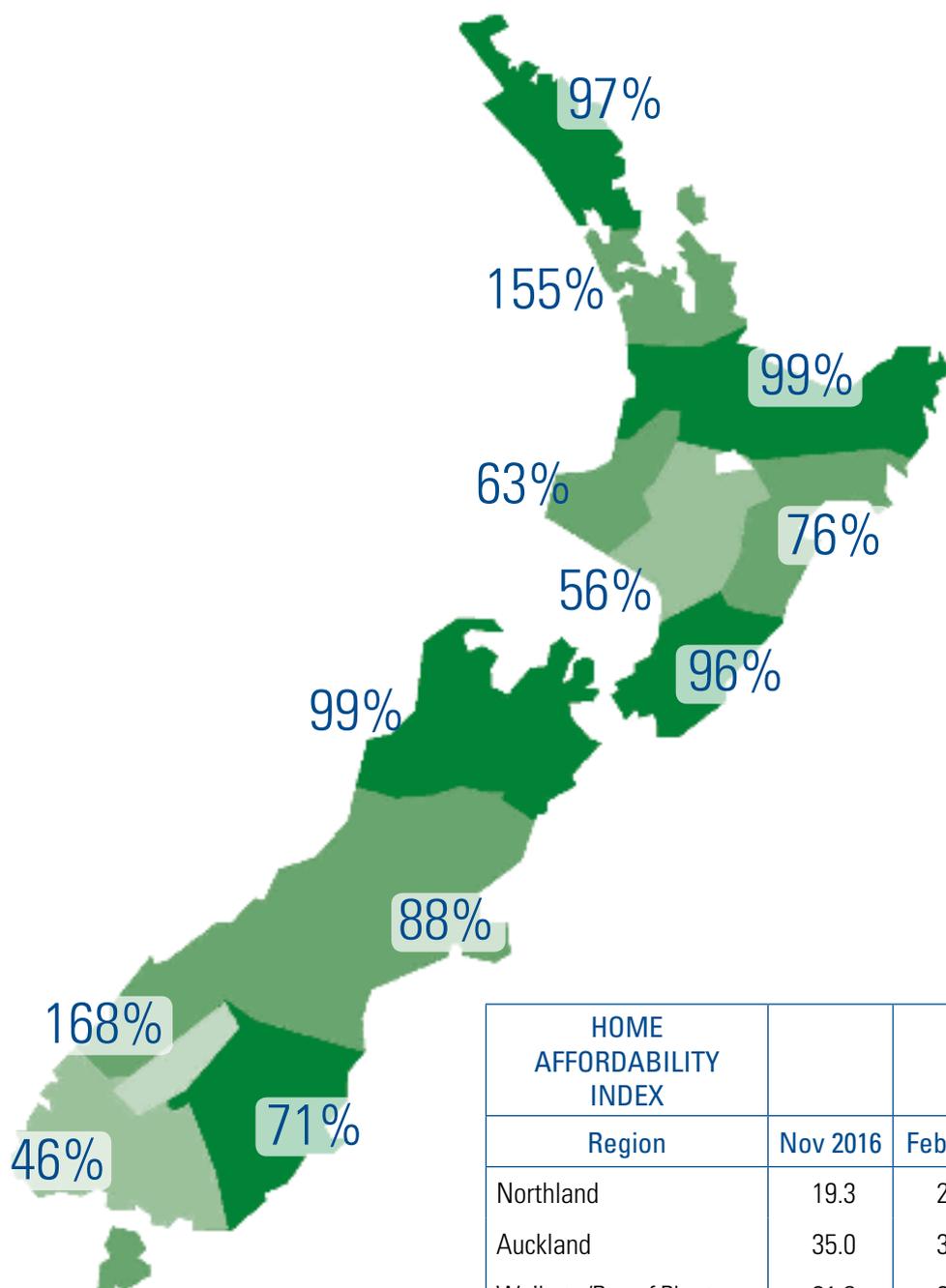
Notwithstanding improvements in affordability for seven regions in each of the annual and quarterly results in our index metrics, house prices to wages remain very high and this factor continues to place considerable strain on first home buyers, especially in the two most expensive regions of Auckland and Central Otago Lakes. Across New Zealand as a whole our house price to annual wages ratio shows a slight improvement with the overall ratio contracting by 0.4 to 8.3. The Auckland region also saw improvement in this ratio, contracting by 0.8 to 12.8. However there has been a significant expansion in this ratio in Central Otago Lakes expanding by 1.3 to 13.9. Median house prices are therefore nearly 14 times annual wages for the Central Otago Lakes region.

Despite dampening house price rises, more stringent deposit and bank lending requirements could make affordability more difficult for new buyers, as could rises in interest rates for existing owners who face higher housing payments. A steady OCR (Official Cash Rate) unchanged at 1.75% has helped to keep borrowing costs low more broadly. However, it is important to note that the quarterly interest rate statistic used here at 4.85% is a weighted average of all loans for January. New customer rates for January had moved up, and were much higher, between 5% to 6% depending on the type and term of the loan. New Zealand property prices also need to be viewed from a global perspective. A slowdown in house price rises in some global cities, plus the nature of global flows of funds, can have an impact on bank lending and demand for house purchases here. This first quarter usually experiences seasonally slow market sales due to holidays, so it will be interesting to see if the trend we are now experiencing continues into the next quarter. Further research into these causality aspects of home affordability is important for the overall study into home affordability for New Zealand.

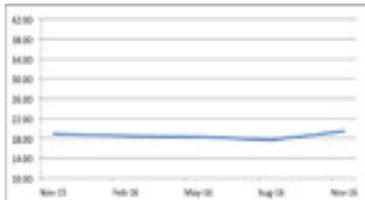
KEY POINTS

- Nationwide, median sales price shows a 10.0 % year-on-year increase, although there is a 4.8% decrease this quarter.
- Auckland median house prices fall for the quarter by \$51,944 to \$800,000 in February.
- Seven regions surpass Auckland's annual price increase (6.7%) – Northland (20.4%), Waikato (14.3%), Manawatu/Wanganui (9.2%), Wellington (15.5%), Nelson/Marlborough/Kaikoura (13.1%), Otago (17.5%) and Central Otago Lakes (30.4%).
- Evidence of a slowdown in house prices continues as seen by seven regional drops in median house prices over the last quarter – Auckland (-6.1%), Waikato/Bay of Plenty/Gisborne (-2.1%), Taranaki (-5.2%), Manawatu/Wanganui (-3.3%), Nelson/Marlborough/Kaikoura (-3.4%), Canterbury/Westland (-3.4%), and Southland (-7.9%).
- An annual 0.5% point drop in interest rates which equates to a 10% reduction in mortgage interest costs coupled with an increase in national wage data of 1.6% contributes to a modest year-on-year improvement in national affordability of 2.2%.
- Central Otago Lakes, including Queenstown (35.0 Index Points), now surpasses Auckland/Thames/Coromandel (32.3 Index Points) in the index as the most unaffordable region in New Zealand.

REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



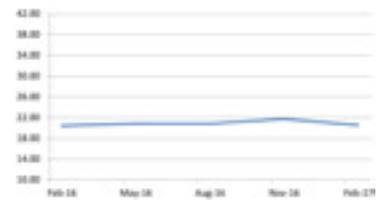
HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	Nov 2016	Feb 2017	Improvement
Northland	19.3	20.1	-	9.2%
Auckland	35.0	32.3	4.4%	-
Waikato/Bay of Plenty	21.8	20.6	-	0.6%
Hawke's Bay	15.6	15.8	5.3%	-
Taranaki	14.8	13.1	9.9%	-
Manawatu/Whanganui	12.4	11.7	4.4%	-
Wellington	19.6	19.9	-	2.3%
Nelson/Marlborough	22.0	20.6	0.6%	-
Canterbury/Westland	19.4	18.4	10.8%	-
Otago	14.4	14.8	-	7.5%
Central Otago Lakes	32.4	35.0	-	11.2%
Southland	10.7	9.6	11.0%	-
New Zealand	22.4	20.8	2.2%	-



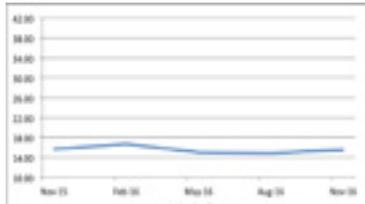
Northland
Feb 16 - Feb 17



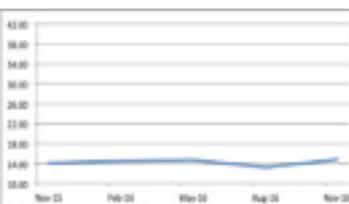
Auckland
Feb 16 - Feb 17



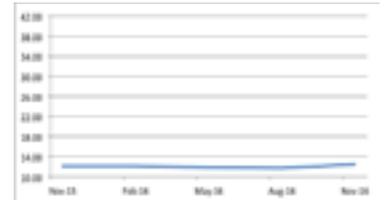
Waikato/Bay of Plenty
Feb 16 - Feb 17



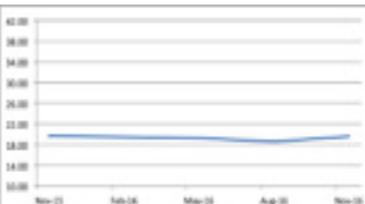
Hawkes Bay
Feb 16 - Feb 17



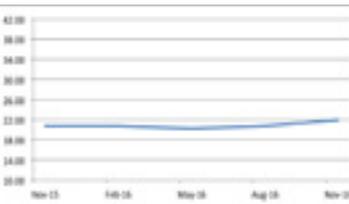
Taranaki
Feb 16 - Feb 17



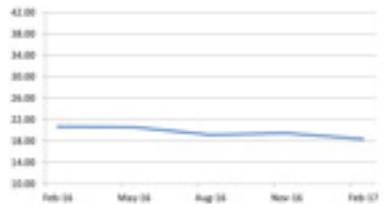
Manawatu/Whanganui
Feb 16 - Feb 17



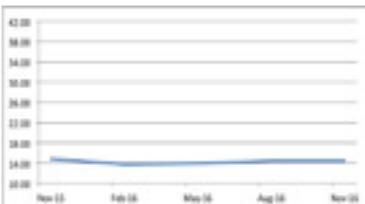
Wellington
Feb 16 - Feb 17



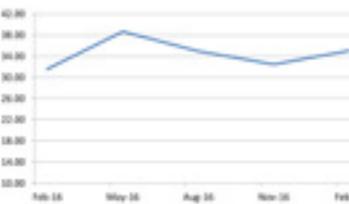
Nelson
Feb 16 - Feb 17



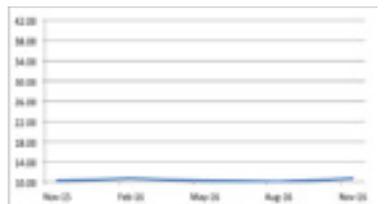
Canterbury/Westland
Feb 16 - Feb 17



Otago
Feb 16 - Feb 17



Central Otago Lakes
Feb 16 - Feb 17

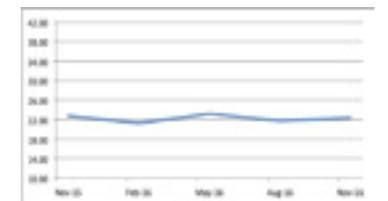


Southland
Feb 16 - Feb 17

REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)

New Zealand
Feb 16 - Feb 17



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

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home buyers are up to the maximum percentage of approximately 80 percent.

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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