

# HOME AFFORDABILITY REPORT

## HOME AFFORDABILITY DETERIORATION BEGINS TO EASE – WILL THIS TREND CONTINUE?

Nationally, the annual deterioration in home affordability has at last begun to slow, and over the past three months affordability has started to improve. Massey's Index shows a year-on-year decline of 6.7%, but in the most recent quarter this figure has turned around to improve by 2.3%. This recent improvement has taken place in every region but one. Even Auckland falls in line with this trend. Affordability in Auckland has improved by 4.9% since our last report in June, although conditions there for much of the year still means the annual picture shows an overall decline (of 16.6%).

Nationally, the changes in the most recent period have resulted from a combination of falling mortgage rates, broadly static house prices, and modest wage improvements. While these national figures mask significant variations across the country, every region except Nelson/Marlborough saw conditions improve.

The biggest improvements in affordability in this quarter have been in Central Otago Lakes (10.5%), Southland (9.6%), Manawatu/Wanganui (8.0%), Northland (6.2%) and Taranaki (6.1%). Not surprisingly, these regions have also experienced the largest falls in house prices in this period, and except for Central Otago Lakes and Southland have seen wage growth. Similar conditions explain the index figures for Auckland (4.9% better) and Hawkes Bay (4.6%), both of which saw wages increase. Improvement in affordability was more modest in Otago (0.4%), Canterbury/Westland (0.5%), Waikato/Bay Of Plenty (2.0%) and Wellington (3.2%). While Wellington house prices fell too, those in the other three actually rose, but these rises were outweighed by falling borrowing costs. The only region – Nelson/Marlborough - to have had a decline in affordability this quarter (2.3% worse), experienced the largest house price rise, sufficient to outweigh cheaper mortgages and wages rising there at twice the national rate.

Despite the generally improving picture, the relative levels of affordability across regions stay broadly unchanged. The margin by which Auckland exceeds the national figure has slipped back a little, but at 52% less affordable than the whole country, it remains at a historically high level. All other regions, with the exception of Central Otago Lakes (20% less affordable), remain more affordable than the national average, with little change in their relative costs. These range from Southland (57% more affordable), to Manawatu/Wanganui (51%), Taranaki (42%), Otago (36%), Hawkes Bay (34%), Northland (23%), Wellington (21%), Waikato/Bay Of Plenty (18%), Canterbury/Westland (9%) and Nelson/Marlborough (8%).

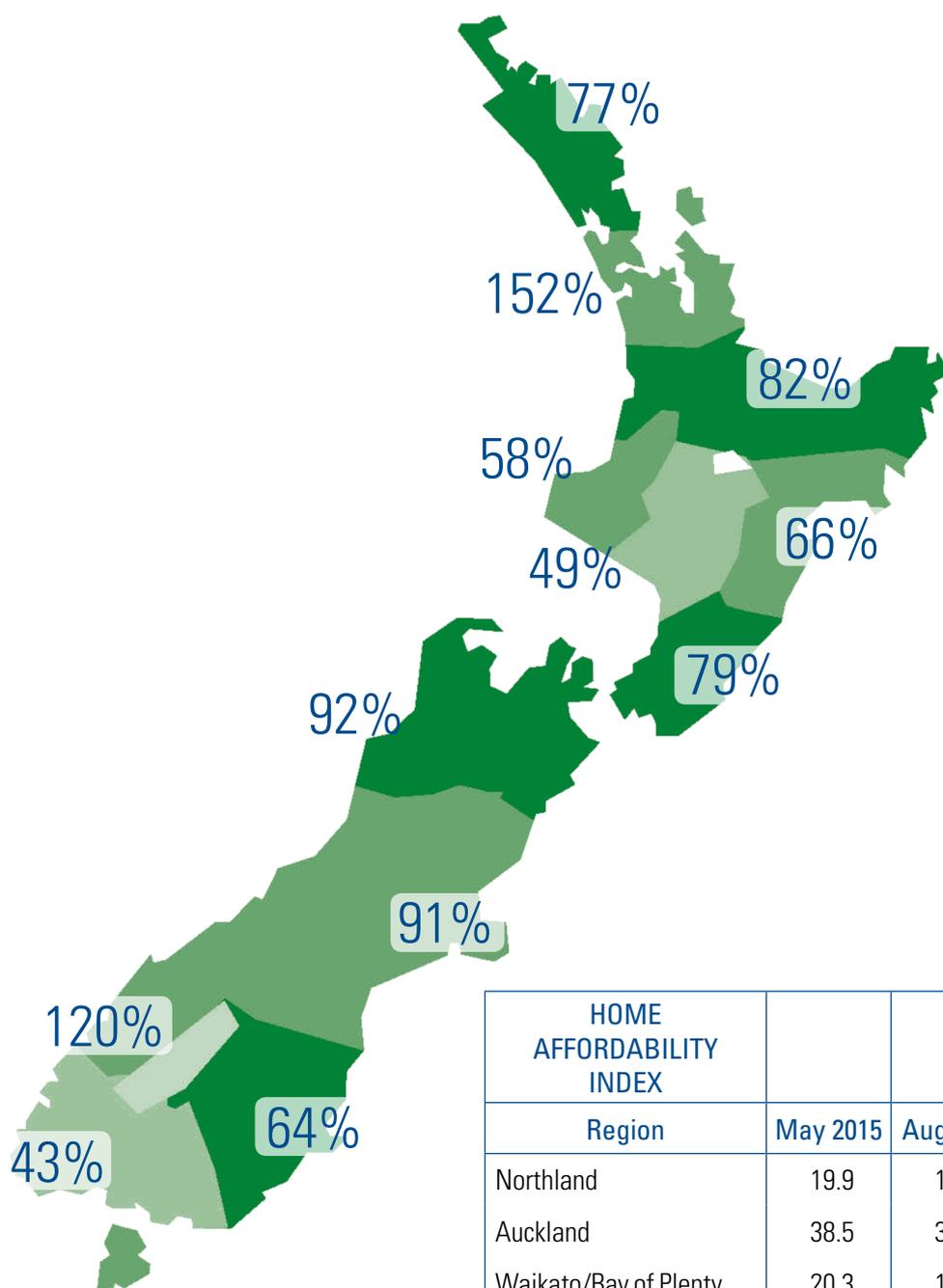
Since compilation of the figures in this Report, the OCR has in September been further reduced by 0.25%. The ensuing effect of this in pushing borrowing costs still lower will ease the burden of house purchase. It also holds the potential to push house prices higher, leading again to a deterioration in housing affordability. In the short-term, however, it seems more likely that the recent improvement will be sustained.

## KEY POINTS

- Annual deterioration in National affordability of 6.7%
- Quarterly improvement in National affordability of 2.3%
- Quarterly improvements in almost all regions
- Quarterly improvements in Auckland of 4.9%
- Recent improvement likely to be sustained in short-term

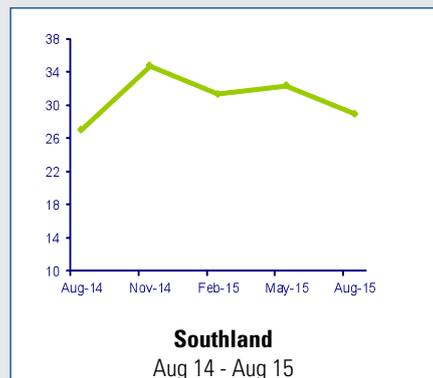
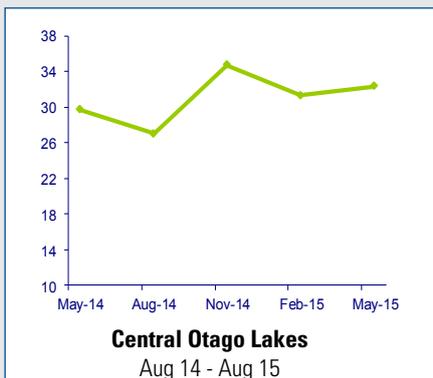
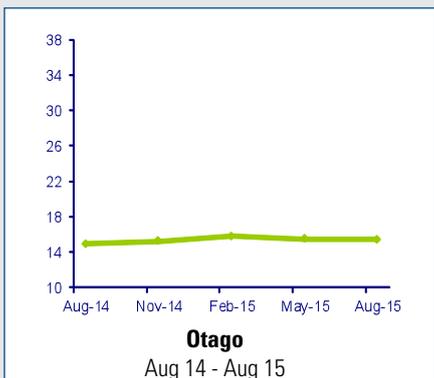
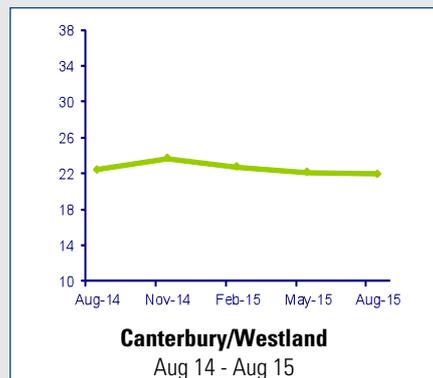
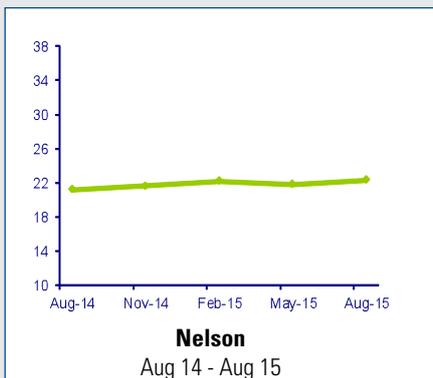
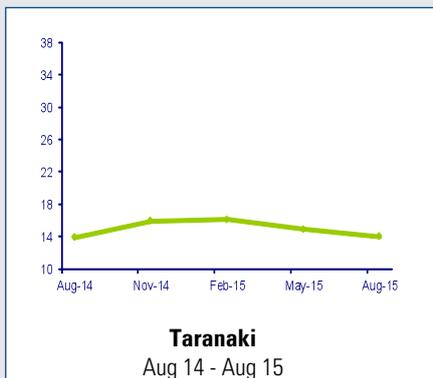
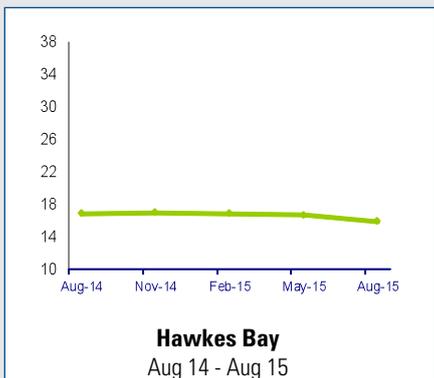
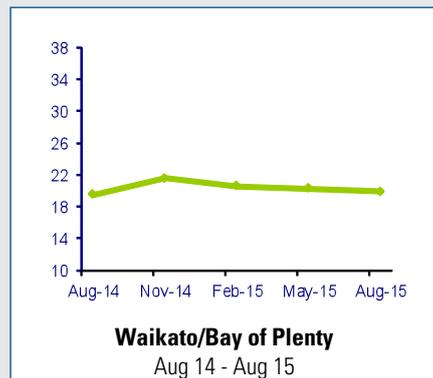
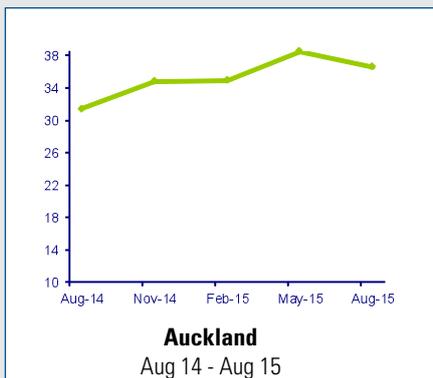


# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	May 2015	Aug 2015	improvement
Northland	19.9	18.7	-	3.9%
Auckland	38.5	36.6	-	16.6%
Waikato/Bay of Plenty	20.3	19.9	-	2.0%
Hawke's Bay	16.7	15.9	5.6%	-
Taranaki	14.9	14.0	-	0.8%
Manawatu/Wanganui	12.9	11.9	9.8%	-
Wellington	19.7	19.1	1.7%	-
Nelson/Marlborough	21.8	22.3	-	5.0%
Canterbury/Westland	22.1	22.0	1.8%	-
Otago	15.5	15.4	-	3.0%
Central Otago Lakes	32.3	28.9	-	6.9%
Southland	11.4	10.3	11.2%	-
New Zealand	24.7	24.1	-	6.7%

# NATIONAL HOME AFFORDABILITY INDEX (A LOW INDEX EQUALS IMPROVED AFFORDABILITY)



# REGIONAL AFFORDABILITY INDEX

**New Zealand**  
Aug 14 - Aug 15



## 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 established a Real Estate Analysis Unit which operates out of Massey University's Albany campus.

The Foundation works closely with the Property Studies Group at MasseyUniversity.

## SCHOOL OF ECONOMICS AND FINANCE MASSEY UNIVERSITY

MasseyUniversity 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. Professor Paul Gallimore directs the Massey University Real Estate Analysis Unit (MUREAU).

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