

# HOME AFFORDABILITY REPORT

QUARTERLY SURVEY JUNE 2015, VOLUME 25, NUMBER 2

## AUCKLAND CONTINUES TO DRIVE DETERIORATION IN HOME AFFORDABILITY

The national affordability index has deteriorated by 11.3% in the past year, and by 5.4% in the past quarter. The last quarter has seen improvements in eight of the country's twelve regions, although these improvements fail to outweigh the "Auckland effect". In the country's largest city the quarterly deterioration in affordability was 10.2%. Only three other regions, Central Otago Lakes (3.3%), Southland (2.5%) and Northland (1.8%) suffered declines in affordability in this quarter. For the whole year, affordability in Auckland has now worsened by more than 25%.

Nationally, over the year, the fall in affordability stems from rises in house prices (\$30,000 or +7.0%). This, combined with modest average interest rate rises (0.33 percentage points), more than offset the increase in average weekly wages of \$18.74 (+1.7%). Auckland wages rose at less than the national average (1.0%), dwarfed by its annual rise in house prices of \$124,000 (+19.8%). Only one region – Canterbury – saw a 12 month improvement in affordability, resulting from a year-on-year fall in prices coupled with a higher than average earning uplift.

Over the quarter, the national improvement from the previous period has been reversed, driven by increasing national house prices. These rose in this quarter by \$30,000 (7.0% and coincidentally the same rise as for the full year), accompanied by little change in weighted average interest rates, and wage rises averaging just 0.8%. In the same quarterly period, with no average wage rise, Auckland prices have steamed ahead, rising by \$74,000 (11.0%)

Despite the overall picture, eight regions do show improvement in affordability in the past three months. Falling house prices accounted for this in six of these regions, namely in Taranaki (an improvement in affordability of 7.60%), Manawatu/Wanganui (5.90%), Wellington (3.50%), Canterbury/Westland (2.70%), Otago (2.10%), and Nelson/Marlborough (1.80%). Affordability also improved in Waikato/Bay of Plenty and Hawkes Bay (both by 1.30%), where house price rises were slightly outpaced by wage rises. The three regions, other than Auckland, that experienced the largest house price rises in the period were those that saw declining quarter-on-quarter affordability; these being Central Otago Lakes (3.3%), Southland (2.5%) and Northland (1.8%).

Changes in affordability in most regions are currently fluid, reflecting variations from quarter-to-quarter in house price movements. Auckland continues to stand apart. Last quarter we reported that the margin by which its unaffordability exceeded the whole country had, at 49%, reached its widest in the history of the Massey Index. Today, that margin stands still higher at 56%.

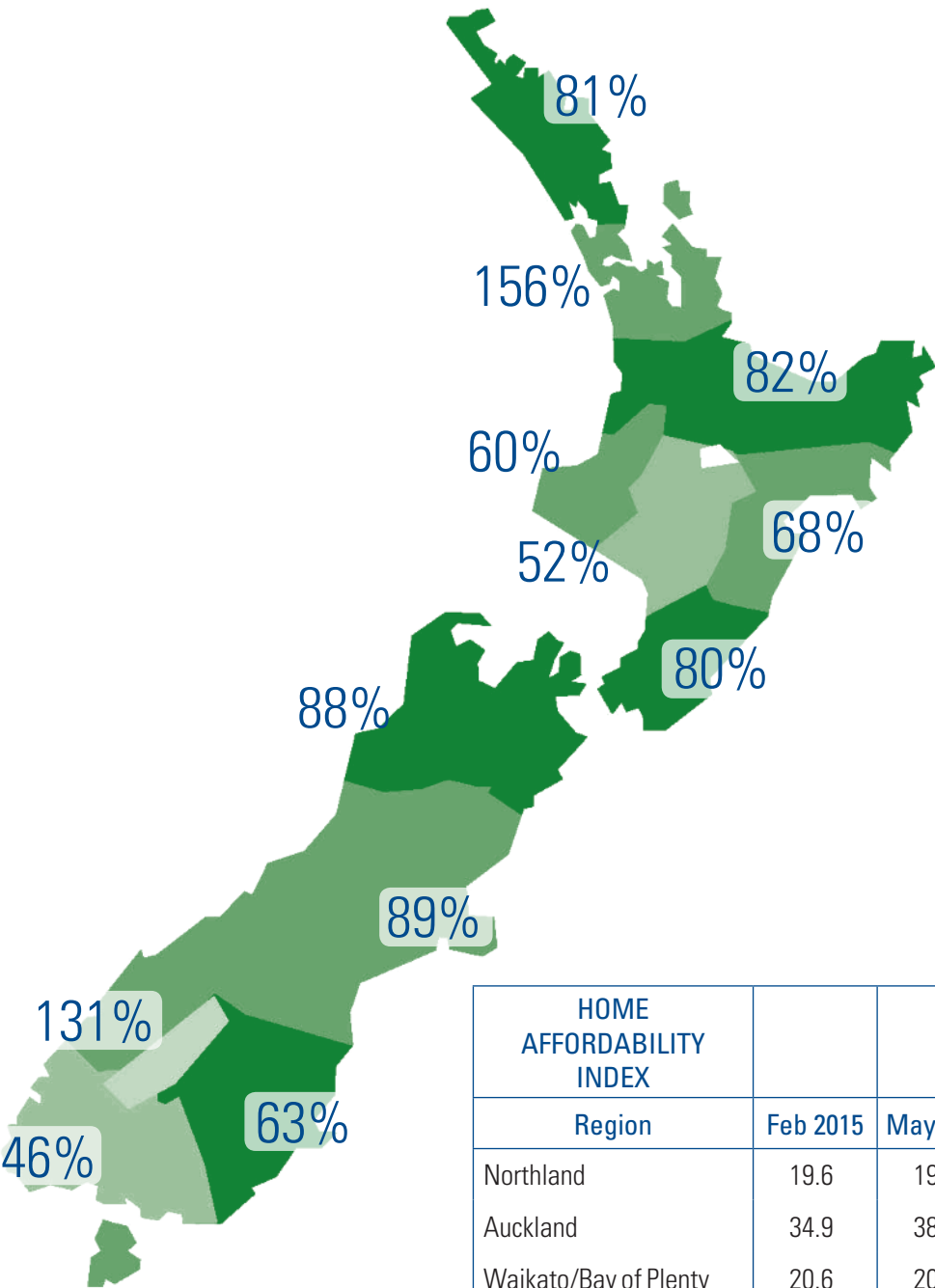
The recent reduction in the OCR, when fed through into lending rates, should work in the short-term to ease the mortgage costs of home-owning. This effect on affordability may in time be countered to an extent by enabling buyers to bid higher for homes. As this balancing act plays out in many regions, Auckland remains problematic to predict. The prospects for a continuation of rampant rises, set against targeting by government to take heat out of this market, will add further complexity to the interplay of factors as diverse as reduced borrowing costs, buyer psychology and building supply.

### KEY POINTS

- Annual deterioration in National affordability of 11.3%
- Canterbury only region to improve in last 12 months
- Quarterly deterioration in National affordability of 5.4%
- Eight regions show improvements in affordability in past quarter
- Auckland's unaffordability relative to the whole country continues to grow

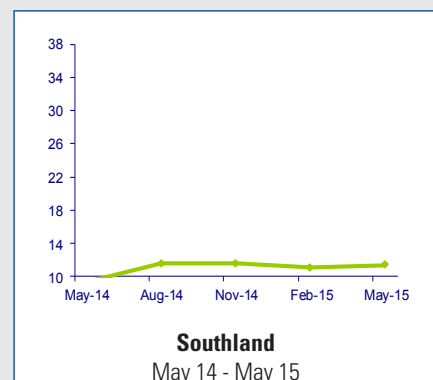
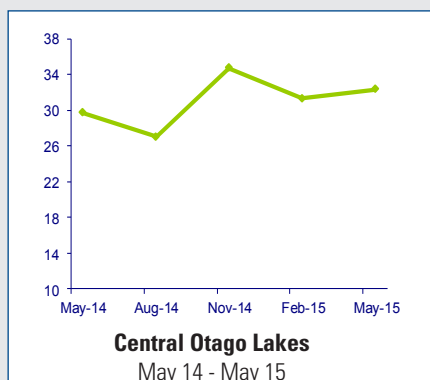
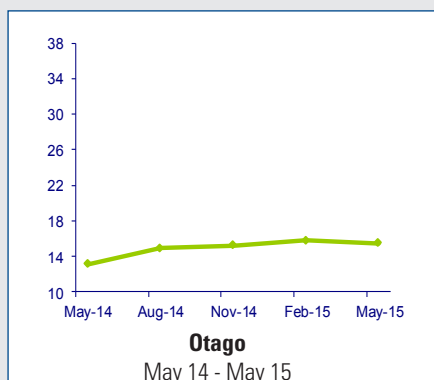
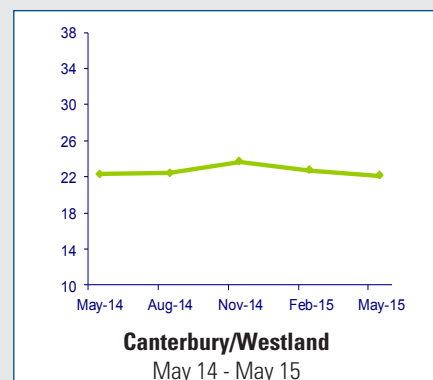
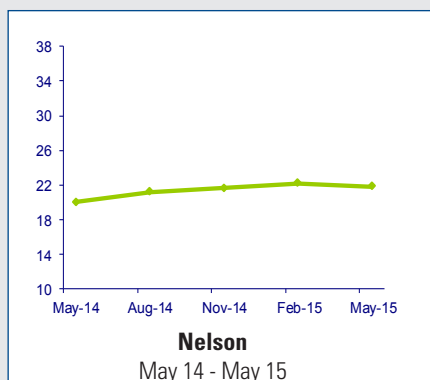
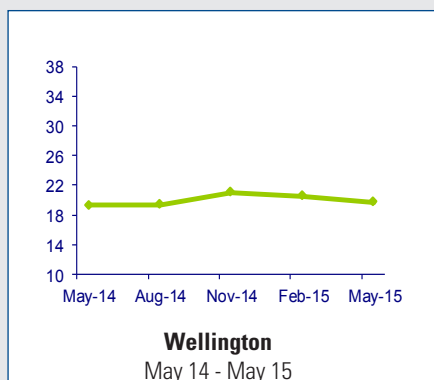
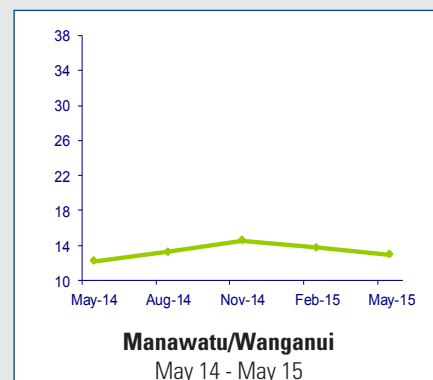
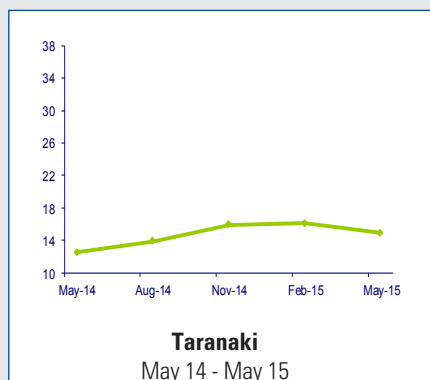
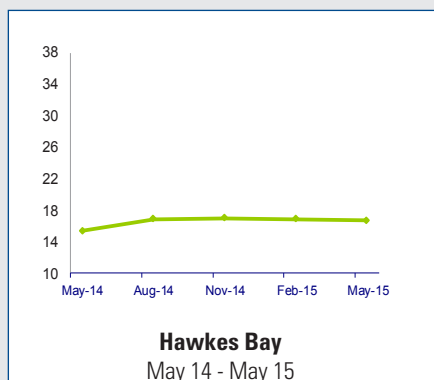
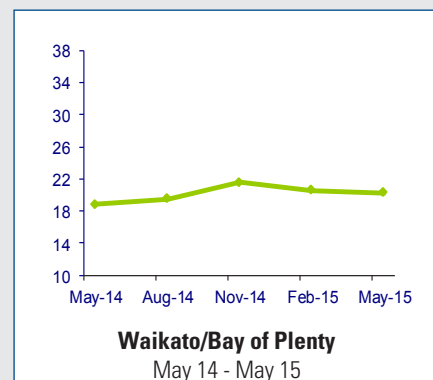
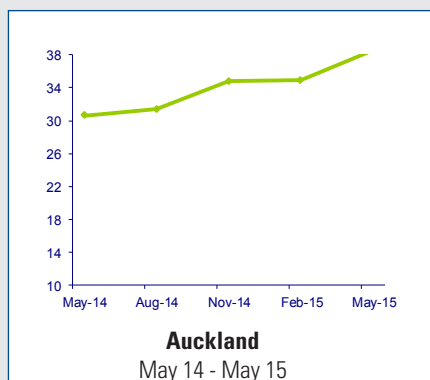
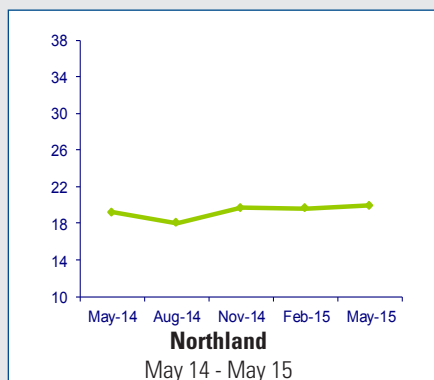


# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



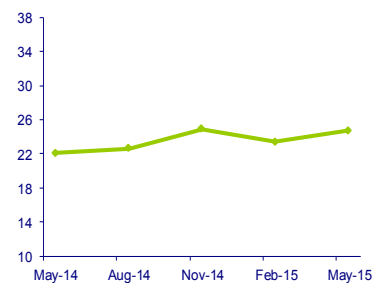
HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	Feb 2015	May 2015	
	Northland	19.6	19.9	- 3.4%
	Auckland	34.9	38.5	- 25.6%
	Waikato/Bay of Plenty	20.6	20.3	- 7.7%
	Hawke's Bay	16.9	16.7	- 7.9%
	Taranaki	16.1	14.9	- 18.5%
	Manawatu/Wanganui	13.7	12.9	- 5.5%
	Wellington	20.5	19.7	- 1.8%
	Nelson/Marlborough	22.2	21.8	- 8.5%
	Canterbury/Westland	22.7	22.1	1.2% -
	Otago	15.8	15.5	- 17.6%
	Central Otago Lakes	31.3	32.3	- 8.6%
	Southland	11.1	11.4	- 21.2%
	New Zealand	23.4	24.7	- 11.3%

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



## REGIONAL AFFORDABILITY INDEX

**New Zealand**  
May 14 - May 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.

**Prepared by Paul Gallimore & Fong Mee Chin**  
**School of Economics and Finance**  
**Massey University**

### ENQUIRIES MAY BE ADDRESSED TO:

Sidah Russell  
Communications and Marketing  
Massey University  
Phone: (09) 213 6448  
Email: [S.Russell@massey.ac.nz](mailto:S.Russell@massey.ac.nz)

**Website** [www.masseynews.massey.ac.nz](http://www.masseynews.massey.ac.nz)

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

## IMPORTANT DISCLAIMER

No person should rely on the contents of this report without first obtaining advice from a qualified professional person. This report is made available on the terms and understanding that Massey University and the authors of this report are not responsible for the results of any actions taken on the basis of information in this report, nor for any error in or omission from this report.