

AMP Home Affordability Report

QUARTERLY SURVEY June 2003 Volume 13, Number 2



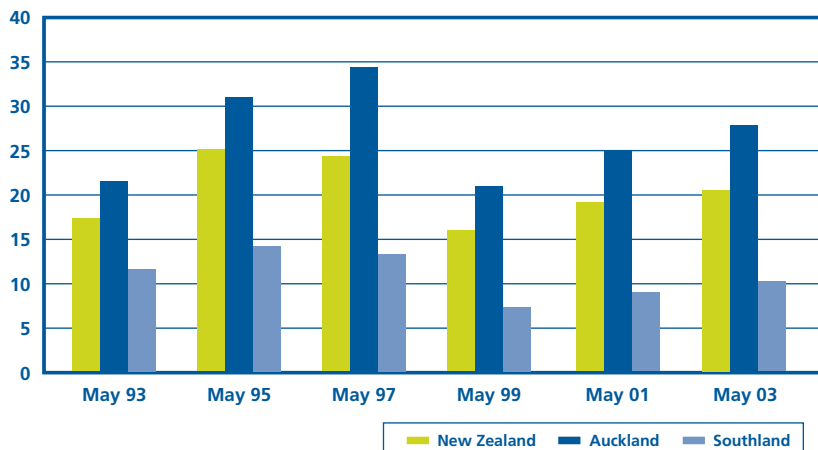
HOME AFFORDABILITY DECLINES IN STRONG MARKET

Home affordability in New Zealand declined 3.2% over the June quarter as house price increases more than offset a drop in interest rates and a slight lift in wages.

Whilst growth in the residential market slowed over the quarter, home buyer activity remained strong. The Real Estate Institute reported quarterly dwelling sales of 30,952, 10.4% up on the same period last year (28,027). May dwelling sales reached an all time monthly high of 11,158. The New Zealand Median Dwelling Price lifted 7% from \$195,000 to end the quarter at an all time high of \$210,000. Interest rates dropped again over the quarter whilst wages continued a slow but steady increase.

Six of the 11 regions recorded a quarterly improvement in home affordability.

National Home Affordability Index
(a low index equals improved affordability)



Key Points

- Strong market activity drives quarterly affordability decline in New Zealand.
- May dwelling sales of 11,158 highest on record for one month.
- New Zealand Median Dwelling Price ends quarter at all time high of \$210,000.
- New Zealand dwelling sales for the past 12 months reach a record yearly total of 107,041.
- Three regions recorded strong lifts in Median Dwelling prices over the past year. Nelson/Marlborough recorded the strongest lift in price at 37.8% followed by Otago at 24.2% and Hawke's Bay at 22.6%.

Home Affordability Report

Otago at 4.3% and Taranaki at 4.2% ranked highest, followed by Waikato/Bay of Plenty/Gisborne (3.4%), Manawatu/Wanganui (3.2%), Auckland (1.1%) and Northland (0.6%). Three of those regions represent the top half of the North Island. Manawatu/Wanganui was the only region to record an affordability improvement for each of the past three consecutive quarters. The remaining five regions recorded a quarterly home affordability decline. Nelson/Marlborough was highest for the second consecutive quarter at 8.6% followed by Hawke's Bay (7.1%), Wellington (5.3%), Southland (4%) and Canterbury/Westland (0.9%).

For the fifth consecutive quarter the New Zealand index recorded a 12-month decline in home affordability (6%). Home sales for the past year reached a record yearly high of 107,041 compared to 89,077 for the previous year, a lift of 20.1%. The Median Dwelling Price moved up 11.7% over the past year from \$188,000 to \$210,000. Two of the 11 regions recorded 12-month improvements in home affordability: Northland at 4.2% and Manawatu/Wanganui at 0.2%. All remaining regions recorded 12-month declines. Nelson/Marlborough recorded the steepest decline at 34.9%, followed by Otago (16.2%), Hawke's Bay (13.1%), Southland

(11.2%), Wellington (10.4%), Taranaki (9.1%), Canterbury/Westland (6.9%), Auckland (2.4%) and Waikato/Bay of Plenty/Gisborne (1.7%).

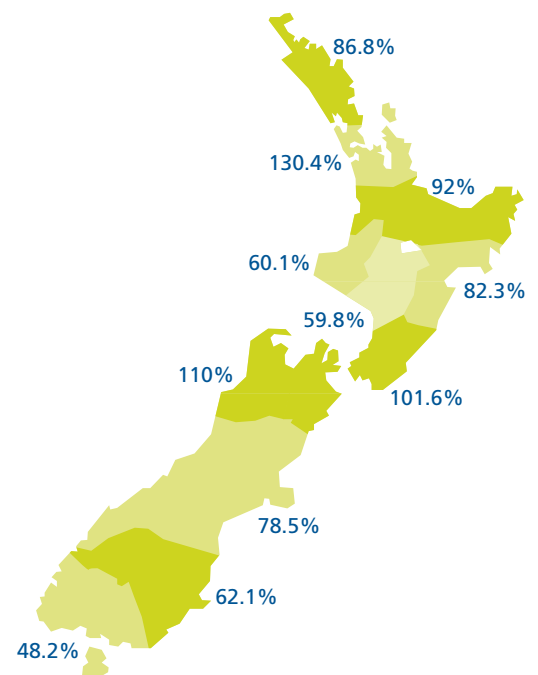
All regions except Northland showed an increase in Median Dwelling Prices over the past year. Nelson/Marlborough recorded the strongest lift in price at 37.8% followed by Otago at 24.2% and Hawke's Bay at 22.6%. The Median Dwelling Price in Northland fell by 1.8% over the 12-month period.

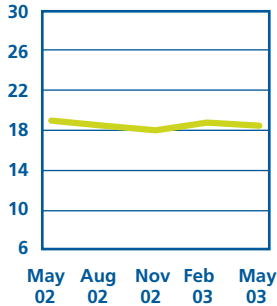
Southland remains the most affordable region followed in ranking by Manawatu/Wanganui and Taranaki, then Otago as fourth most affordable region. Auckland remains the least affordable region followed in ranking by Nelson/Marlborough then Wellington as the third least affordable region.

The graph on the front page illustrates the relative movement in home affordability for New Zealand, Auckland and Southland over the past 10 years.

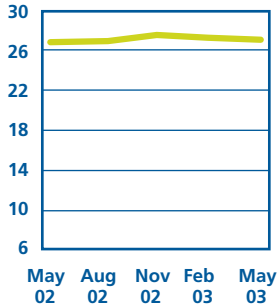
Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	Feb 03	May 03	Improvement	Decline
Northland	18.71	18.59	-4.2%	-
Auckland	28.21	27.92	-	2.4%
Waikato/Bay of Plenty	20.39	19.69	-	1.7%
Hawke's Bay	16.46	17.63	-	13.1%
Taranaki	13.43	12.87	-	9.1%
Manawatu/Wanganui	13.23	12.81	-0.2%	-
Wellington	20.66	21.75	-	10.4%
Nelson	21.70	23.55	-	34.9%
Canterbury/Westland	16.66	16.81	-	6.9%
Otago	13.89	13.30	-	16.2%
Southland	9.92	10.31	-	11.2%
New Zealand	20.75	21.41	-	6.0%

Regional Affordability as a Percentage of National Average

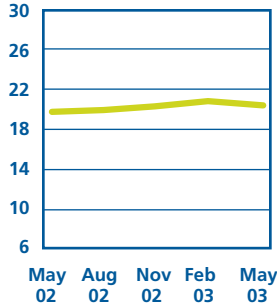




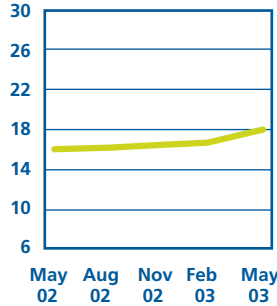
Northland
May 02 – May 03



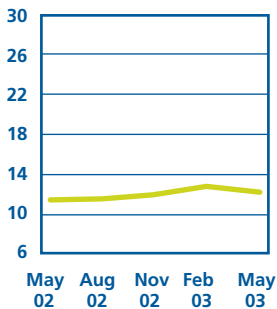
Auckland
May 02 – May 03



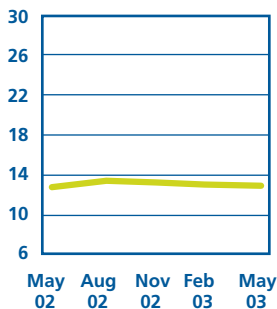
Waikato/Bay of Plenty
May 02 – May 03



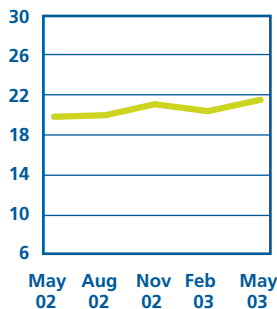
Hawke's Bay
May 02 – May 03



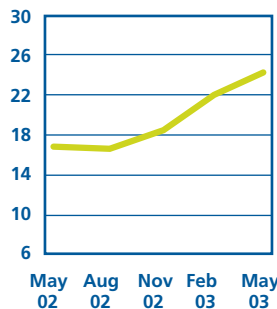
Taranaki
May 02 – May 03



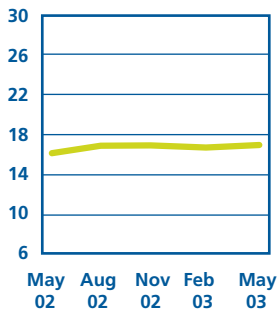
Manawatu/Wanganui
May 02 – May 03



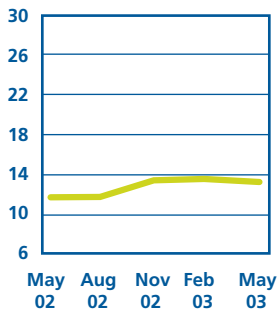
Wellington
May 02 – May 03



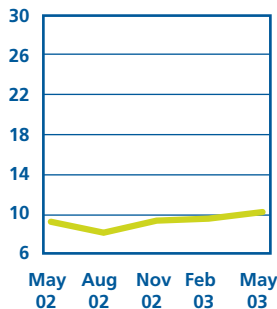
Nelson
May 02 – May 03



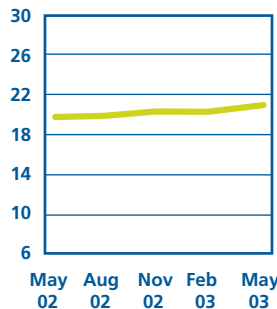
Canterbury/Westland
May 02 – May 03



Otago
May 02 – May 03



Southland
May 02 – May 03



New Zealand
May 02 – May 03



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Data Sources

This survey is based on a similar study prepared regularly in Australia by the Real Estate Institute of Australia and AMP.* The New Zealand version differs in terms of the data used but the format of presentation is similar to aid comparability for an Australasian comparison. 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 these data provides the opportunity to calculate a reliable and useful summary index. The lower the index the more affordable is the housing. The index allows for comparisons over time and between regions of relative housing affordability in New Zealand.

(*Australian Index expresses ratio of average of home loan repayment to family earnings. New Zealand Index expresses weighted mortgage interest rate as a percentage of median selling price to average wage.)

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 provides 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 are provided directly by Statistics New Zealand.

Average Monthly Interest Rates

The Reserve Bank publishes a series on mortgage interest rates. The number is the variable rate for new borrowers. This is calculated as the weighted average interest rate for ANZ Banking Group, ASB Bank, BNZ, National Bank, and WestpacTrust, weighted according to the size of each institution's total residential mortgage portfolio.

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.

Massey University Property Foundation

The Foundation is established to sponsor research and education in property related matters in New Zealand. The Chairman of Trustees is Gordon Davies and funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has established a Real Estate Analysis Unit to operate out of both Massey University's Palmerston North and Albany campuses.

The Foundation works closely with the Property Studies Group at Massey University, and Ms Natalie McLelland is the Secretary/Treasurer. She may be contacted on +025 2462347.

Professor R.V. (Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 3505799 ext 7473.

Department of Finance, Banking and Property, Massey University

Massey University has three campuses, located in Palmerston North, Wellington and Albany (North of Auckland), in New Zealand. The University has an enrolment of 33,000 students with approximately 13,000 business students. There are 10 departments and three schools within the Business Studies College. Professor R.V. (Bob) Hargreaves, leads the Property group, which has a staff of seven academics. He also directs the Massey University Real Estate Analysis Unit (MUREAU).

AMP

AMP has commissioned MUREAU to undertake specific targeted research into aspects of the New Zealand property market. The purpose of the research is to provide informed commentary on aspects of the residential market place for the benefit of lending institutions, property related professions and the public.

Important Disclaimer

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