

AMP Home Affordability Report

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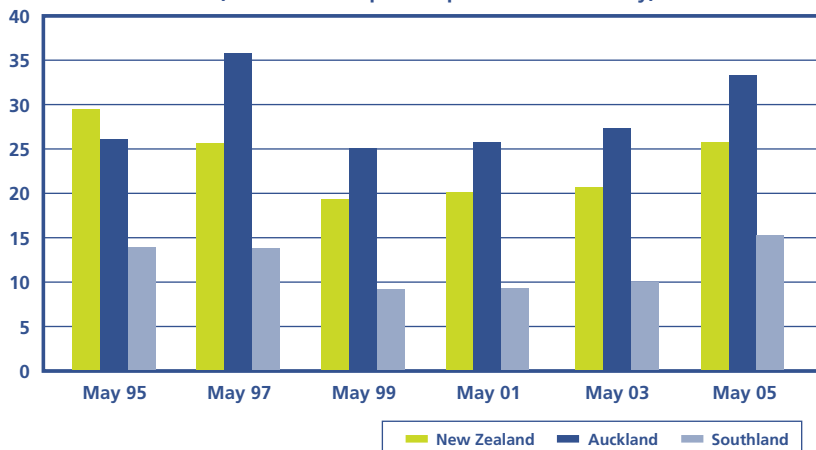


HOUSING MARKET SHOWS NO SIGNS OF SLOWING

House prices have continued to rise in most regions throughout the country as the New Zealand housing market entered its fifth year of sustained growth. Interest rates inched up one point over the quarter despite Reserve Bank indications that they may lift the rates further. Overall, the AMP New Zealand Home Affordability Index for June reflected a quarterly decline of 1.9% meaning home affordability has now declined for five consecutive quarters. Meanwhile, after lifting 1.5% in the previous quarter, Average Weekly Wages also moved up a further 1.6% in this quarter.

Although residential sales were reported by the Real Estate Institute of New Zealand to be rallying during the month of May, sales were in fact down on the same month from the previous two years. Quarterly dwelling sales of 28,554 were 6% down on the same period last year (30,381) while the New Zealand Median Dwelling Price lifted 2.2% to \$275,000 at the end of the quarter. This figure is still down on the all-time high of \$280,000, which was reached in March

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



Key Points

- Housing market enters fifth year of sustained growth.
- Rising house prices remain the principal driver of declining affordability.
- North Island provincial regions continue highest ranking in annual affordability decline.
- Average Weekly Wage lifts 3.1% in past six months.
- Nelson/Marlborough first region in almost two years to record a 12-monthly fall in the Median Dwelling Price.

Home Affordability Report

of this year. These rising house prices remain the principal driver of the declining affordability.

This quarter, eight regions reported a quarterly rise in Median Dwelling Prices, as well as a decline in home affordability. Two North Island provincial regions reflected the steepest decline with Northland at 13.1%, followed by Taranaki (9.5%), Southland (6.7%), Auckland (4.8%), Canterbury/Westland (5.5%), Wellington (3.4%), Hawke's Bay (2.1%) and Manawatu/Wanganui (0.2%). Meanwhile, three regions recorded a quarterly improvement in affordability. Nelson/Marlborough ranked highest in improvement for the second consecutive quarter at 4.3%, followed by a second South Island region, Otago (2.8%). The third region was Waikato/Bay of Plenty/Gisborne (0.2%). Both South Island regions also reported a quarterly fall in Median Dwelling Prices.

The New Zealand index reflected a 12-month decline in home affordability (14.9%) for the twelfth consecutive quarter. Reported home sales for the past year were 104,147, 13.1% down on the previous year's (Jun 03/May 04) sales of 119,881. The Median Dwelling Price moved up 10.9% over the past year from \$248,000 to \$275,000. All 11 regions recorded a 12-month decline in home affordability for the fourth consecutive quarter. North Island provincial regions ranked highest for the second consecutive quarter with Taranaki leading again at 51.3%, followed by Northland (45.6%), Hawke's Bay (33.2%), Waikato/Bay of Plenty/Gisborne

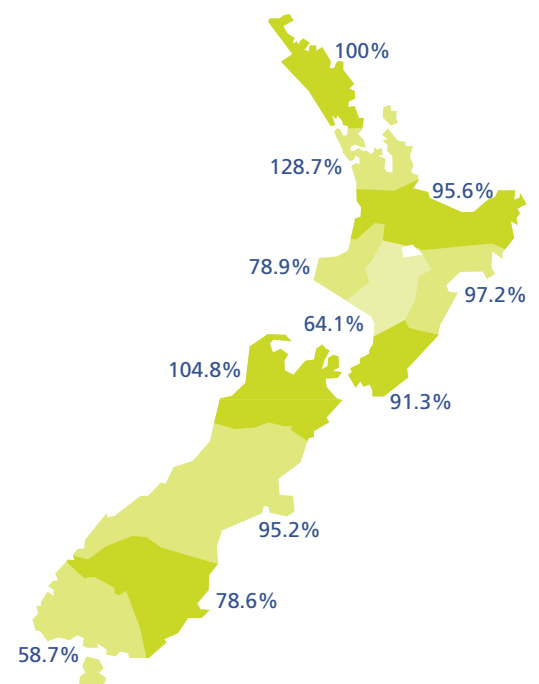
(29.5%), Southland (27.8%), Manawatu/Wanganui (25.7%), Canterbury/Westland (22.1%), Otago (14.7%), Auckland (12.5%), Wellington (10.8%) and Nelson/Marlborough (2.3%). All regions except Nelson/Marlborough reported an increase in Median Dwelling Prices over the past year. North Island provincial regions showed the strongest growth in house prices, with Taranaki continuing to lead at 44.4%, followed by Northland (35.5%), Hawke's Bay (27.9%), Manawatu/Wanganui (25.9%) and Waikato/Bay of Plenty/Gisborne (24%). Nelson/Marlborough is the first region in almost two years to report a 12-month fall (3.6%) in its Median Dwelling Price.

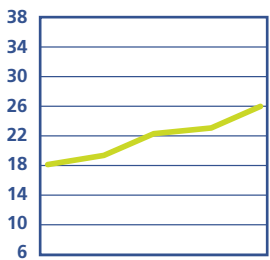
Southland remains the most affordable region while Manawatu/Wanganui continues to hold the number two position. Auckland remains the least affordable region followed by Nelson/Marlborough ranked in number two position.

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	February 05	May 05	Improvement	Decline
Northland	23.04	26.05		45.6%
Auckland	31.98	33.52		12.5%
Waikato / Bay of Plenty	24.96	24.92	29.5%	
Hawke's Bay	24.81	25.33		33.2%
Taranaki	18.77	20.55		51.3%
Manawatu / Wanganui	16.68	16.71		25.7%
Wellington	23.00	23.77		10.8%
Nelson / Marlborough	28.52	27.30	2.3%	
Canterbury / Westland	23.51	24.81		22.1%
Otago	21.07	20.48		14.7%
Southland	14.32	15.28		27.8%
New Zealand	25.58	26.05		14.9%

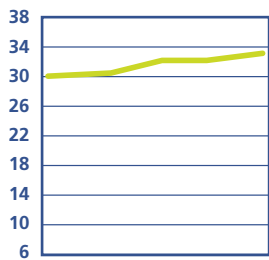
Regional Affordability as a Percentage of National Average





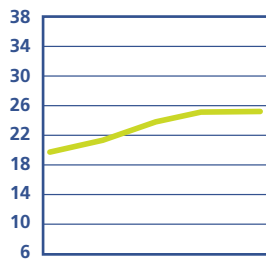
May 04 Aug 04 Nov 04 Feb 05 May 05

Northland
May 04 – May 05



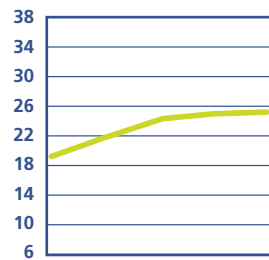
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Auckland
May 04 – May 05



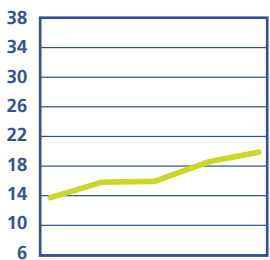
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Waikato/Bay of Plenty
May 04 – May 05



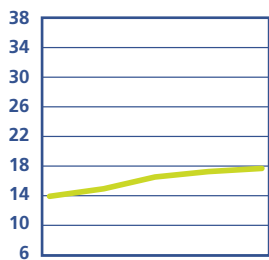
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Hawke's Bay
May 04 – May 05



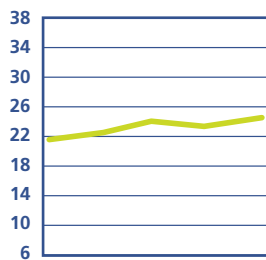
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Taranaki
May 04 – May 05



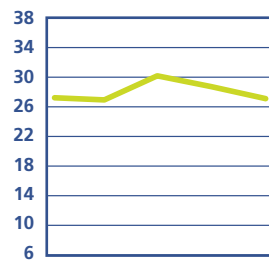
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Manawatu/Wanganui
May 04 – May 05



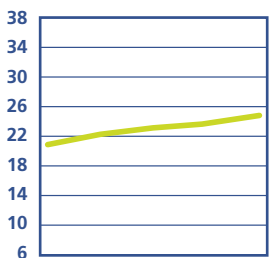
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Wellington
May 04 – May 05



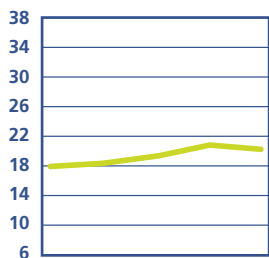
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Nelson
May 04 – May 05



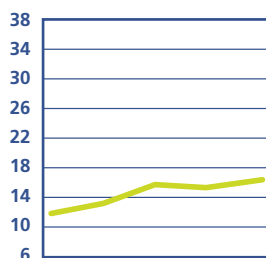
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Canterbury/Westland
May 04 – May 05



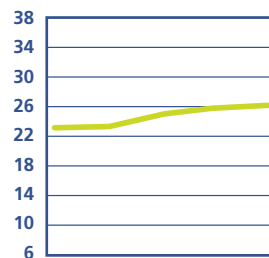
May 04 Aug 04 Nov 04 Feb 05 May 05

Otago
May 04 – May 05



May 04 Aug 04 Nov 04 Feb 05 May 05

Southland
May 04 – May 05



May 04 Aug 04 Nov 04 Feb 05 May 05

New Zealand
May 04 – May 05



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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 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.

(*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 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% 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%.

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 William Cleghorn 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 +025 246 2347.

Professor R.V. (Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 350 5799 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 10 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

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 AMP, 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.