

# AMP Home Affordability Report

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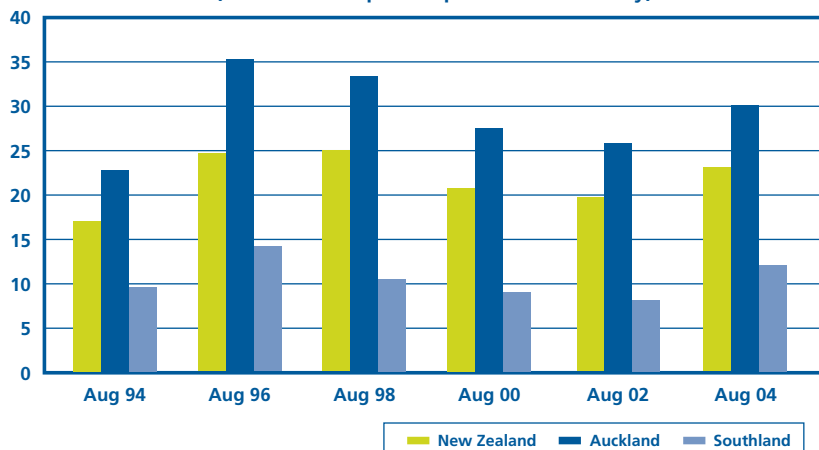


## RISING INTEREST RATES COOL HOUSING MARKET

As house prices dipped slightly and interest rates continued to trend upward, the New Zealand Home Affordability Index for September recorded a quarterly decline of 1.6%. Average Weekly Wages showed little movement over the period.

A strong slowdown in residential sales was heralded in the latest Real Estate Institute release, which records quarterly dwelling sales of 24,360, 19.1% down on the same period last year (30,121). However, sales remain historically high when compared to normal residential real estate cycles in New Zealand. The New Zealand Median Dwelling Price dipped slightly over the quarter, ending at \$247,000, down 0.4% from an all-time high of \$248,000. Interest rates continued to climb for the third consecutive quarter.

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



## Key Points

- Quarterly dwelling sales remain historically high, but 19.1% down on last year.
- New Zealand Median Dwelling Price dips slightly from all-time high.
- Interest rates rise for third consecutive quarter.
- Annual affordability decline the steepest in eight years.
- Otago house prices lift 38.1% in past year.

# Home Affordability Report

All but two regions (Auckland and Nelson/Marlborough) reported a quarterly lift in Median Dwelling Prices and all regions except Nelson/Marlborough recorded a quarterly decline in home affordability. Taranaki region led with the steepest affordability decline at 18.9%, followed by Hawke's Bay (12.9%), Northland (9.3%), Waikato/Bay of Plenty/Gisborne and Manawatu/Wanganui (9.1%), Canterbury/Westland (7.2%), Southland (5.3%), Otago (4.5%), Wellington (2.4%) and Auckland (0.4%). Nelson/Marlborough was the only region to record a quarterly affordability improvement, at 2.8%.

The New Zealand index reflected a 12-month decline in home affordability (13.5%) for the eighth consecutive quarter, the steepest annual decline recorded in eight years. Home sales for the past year declined to 114,523, down from the yearly total of 119,881 reported in the last quarter. However, sales were still up on the previous year's (Sep 02/Aug 03) sales of 113,845. The Median Dwelling Price moved up 14.9% over the past year from \$215,000 to \$247,000. All 11 regions recorded a 12-month decline in home affordability. Otago continued to rank highest for the third consecutive quarter at 37.3%, followed by Taranaki (36.3%), Canterbury/Westland (35.4%),

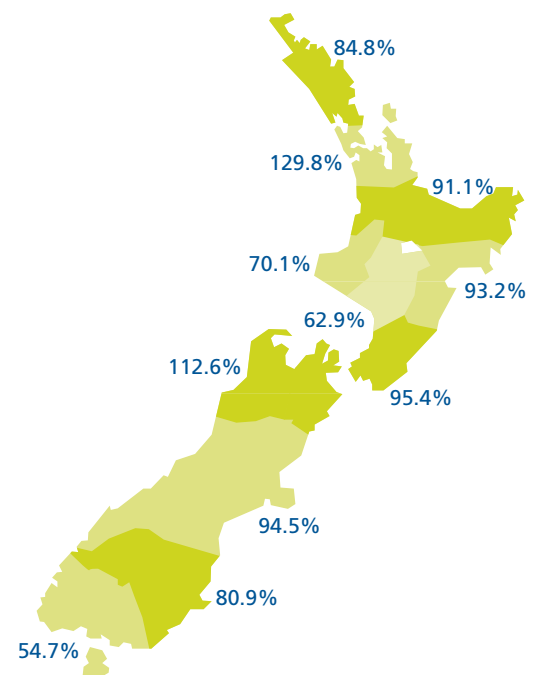
Hawke's Bay (28.4%), Manawatu/Wanganui (20.4%), Southland (16.8%), Wellington (15.4%), Waikato/Bay of Plenty/Gisborne (13.3%), Northland (13.2%), Nelson/Marlborough (9.6%) and Auckland (5.7%). All regions reported an increase in Median Dwelling Prices over the past year. Otago continued the strongest showing, with an annual lift in house prices of 38.1%, followed by Taranaki at 30.9%. Auckland occupied the lower end of the spectrum at a relatively modest 6.8%.

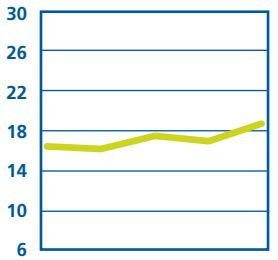
Southland remains the most affordable region followed in ranking by Manawatu/Wanganui, which regularly competes with Taranaki for the number two position. Auckland remains the least affordable region followed in ranking by Nelson/Marlborough.

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

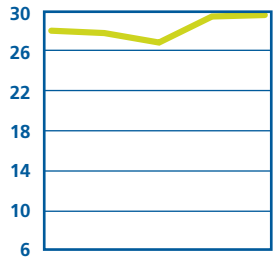
Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	May 04	August 04	Improvement	Decline
Northland	17.89	19.56		13.2%
Auckland	29.79	29.91		5.7%
Waikato / Bay of Plenty	19.24	21.00		13.3%
Hawke's Bay	19.02	21.48		28.4%
Taranaki	13.59	16.15		36.3%
Manawatu / Wanganui	13.29	14.50		20.4%
Wellington	21.46	21.98		15.4%
Nelson/Marlborough	26.69	25.95	2.8%	9.6%
Canterbury / Westland	20.32	21.79		35.4%
Otago	17.85	18.64		37.3%
Southland	11.96	12.60		16.8%
New Zealand	22.68	23.05		13.5%

Regional Affordability as a Percentage of National Average

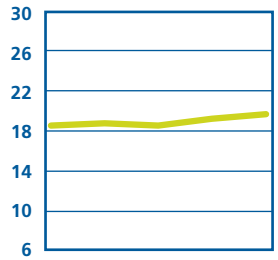




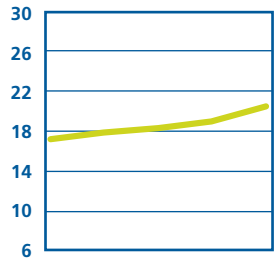
**Northland**  
Aug 03 – Aug 04



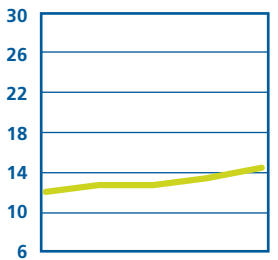
**Auckland**  
Aug 03 – Aug 04



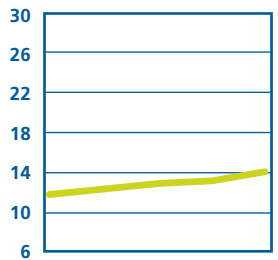
**Waikato/Bay of Plenty**  
Aug 03 – Aug 04



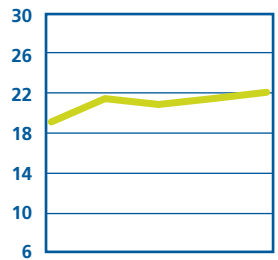
**Hawke's Bay**  
Aug 03 – Aug 04



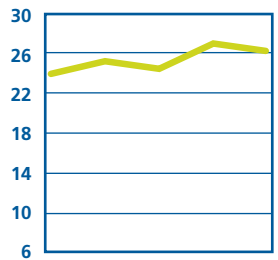
**Taranaki**  
Aug 03 – Aug 04



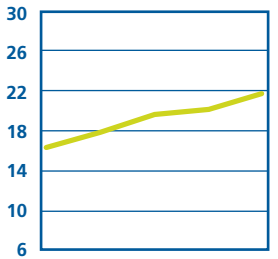
**Manawatu/Wanganui**  
Aug 03 – Aug 04



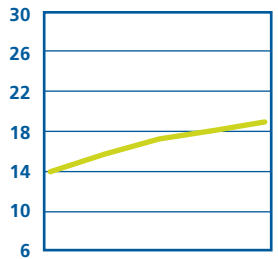
**Wellington**  
Aug 03 – Aug 04



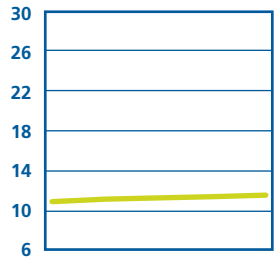
**Nelson**  
Aug 03 – Aug 04



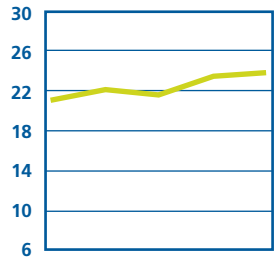
**Canterbury/Westland**  
Aug 03 – Aug 04



**Otago**  
Aug 03 – Aug 04



**Southland**  
Aug 03 – Aug 04



**New Zealand**  
Aug 03 – Aug 04



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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 nine 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.