

AMP Home Affordability Report

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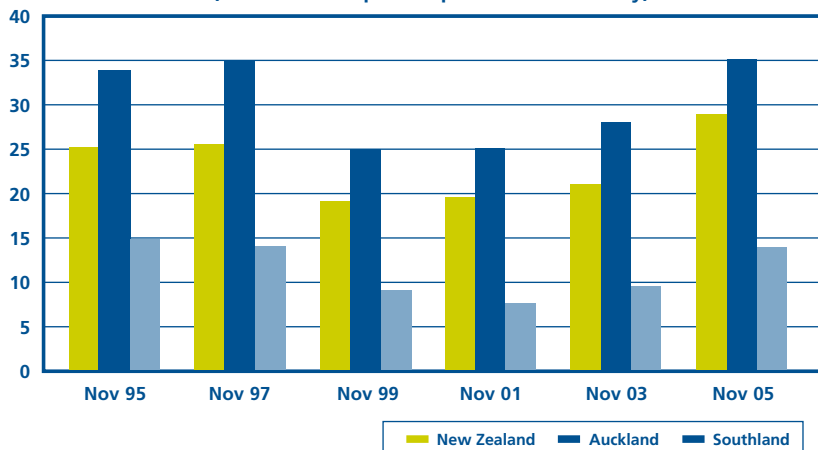
HOUSING MARKET SHRUGS OFF WARNINGS

Despite an attempt by the Reserve Bank to dampen down the housing market, the New Zealand Median Dwelling Price lifted 3.4% over the quarter, climbing to an unprecedented high of \$300,000. Upward pressure on house prices, rather than interest rates, remained the principal driver of declining home affordability. The New Zealand Home Affordability Index reflected a quarterly decline of 4.8%, a trend that has now been sustained for seven consecutive quarters.

The Real Estate Institute of New Zealand said residential sales reflected a “stayer’s run” during November, with quarterly sales remaining in excess of the same period last year. Quarterly dwelling sales of 27,056 were 5.9% up on the same period last year (25,547).

This quarter nine of the 12 regions recorded a rise in Median Dwelling Prices and 10 reported a quarterly decline in home affordability. Two South Island regions led the field with Otago recording the steepest decline at 17.8%, followed by Central Otago Lakes (15%), Manawatu/Wanganui (10%),

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



Key points

- Busy housing market shrugs off Reserve Bank warnings.
- New Zealand Median Dwelling Price continued to climb, reaching an unprecedented \$300,000.
- Quarterly dwelling sales remain ahead of the same period last year.
- Upward pressure on house prices, rather than rising interest rates, remains the principal driver of declining affordability.
- Nelson/Marlborough becomes the first region in five quarters to record a twelve monthly affordability improvement.
- Manawatu/Wanganui plays ‘catch-up’ with a 25.5% lift in the Median Dwelling Price over the past year.



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Waikato/Bay of Plenty/Gisborne (8.6%), Hawke's Bay (6%), Canterbury/Westland (5.9%), Auckland (3.9%), Nelson/Marlborough (3.8%), Northland (3.4%) and Wellington (3.2%). Two regions, Southland and Taranaki, recorded a quarterly improvement in affordability at 4.3% and 2.5% respectively. Both regions joined Nelson/Marlborough in recording a quarterly fall in Median Dwelling Prices.

On a yearly basis, for the fourteenth consecutive quarter the New Zealand index reflected a twelve monthly decline in home affordability (16.3%). Total sales for the past year were 105,981, 1.3% down on the previous year's (Dec 03/Nov 04) sales of 107,335. The Median Dwelling Price moved up 15.4% over the past year from \$260,000 to \$300,000.

Eleven of the 12 regions recorded an annual decline in home affordability. For the second consecutive quarter provincial regions dominated this decline with Taranaki and Manawatu/Wanganui ranking highest at 24.5%, followed by Canterbury/Westland (22.4%), Waikato/Bay of Plenty/Gisborne (22.3%), Northland (18.9%), Otago (17.1%), Wellington (14.7%), Hawke's Bay (12.1%), Auckland (10.3%), Southland (3.9%) and Central Otago Lakes (3.5%).

Nelson/Marlborough, which has been reflecting signs of a settled market for some time, became the first region in five quarters to record a twelve monthly affordability improvement (4.3%).

All regions, except Nelson/Marlborough, reported an increase in Median Dwelling Prices over the past year. Manawatu/Wanganui, playing 'catch-up' in a busy market, recorded the steepest lift at 25.5%, followed by Canterbury/Westland at 20% and Waikato/Bay of Plenty/Gisborne at 19.6%. Nelson/Marlborough reported a fall of 6.8% in the Median Dwelling Price over the year.

Southland remains the most affordable region followed in ranking by Manawatu/Wanganui in the number two position. Central Otago Lakes is the least affordable region followed in ranking by Auckland.

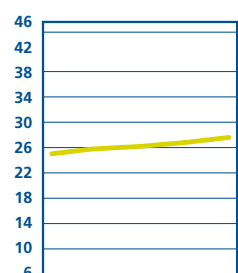
The graph on the front page illustrates the relative movement in home affordability for New Zealand, Auckland and Southland over the past 10 years.

Regional Affordability December 2005 Quarter

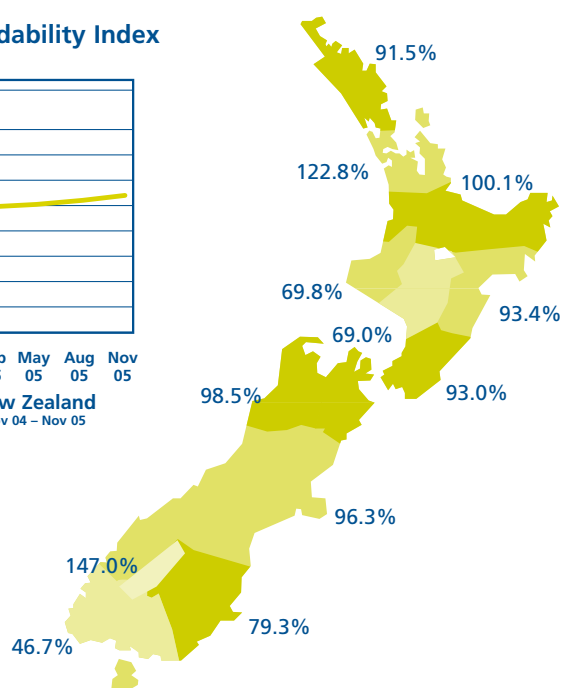
Region	Home Affordability Index		Percentage Change in Home Affordability in the last 12 months	
	August 05	November 05	Improvement	Decline
Northland	25.49	26.35		18.9%
Auckland	34.03	35.37		10.3%
Waikato/Bay of Plenty/Gisborne	26.56	28.84		22.3%
Hawke's Bay	25.37	26.90		12.1%
Taranaki	20.61	20.10		24.5%
Manawatu/Wanganui	18.07	19.87		24.5%
Wellington	25.94	26.78		14.7%
Nelson/Marlborough	27.33	28.36	4.3%	
Canterbury/Westland	26.19	27.72		22.4%
Otago	19.38	22.83		17.1%
Central Otago Lakes	36.81	42.33		3.5%
Southland	14.06	13.46		3.9%
New Zealand	27.49	28.80		16.3%

Regional Affordability as a Percentage of National Average

NZ Affordability Index

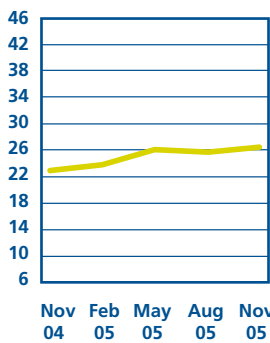


New Zealand
Nov 04 - Nov 05

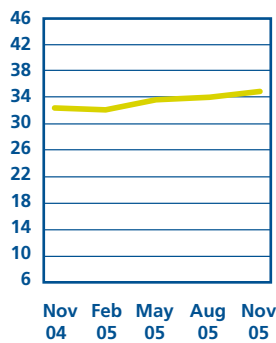




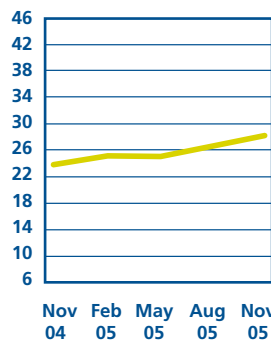
Regional Affordability Index – December 2005 Quarter



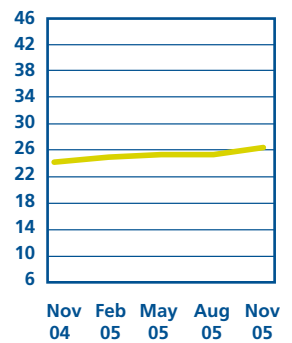
Northland
Nov 04 – Nov 05



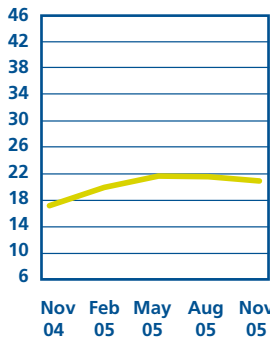
Auckland
Nov 04 – Nov 05



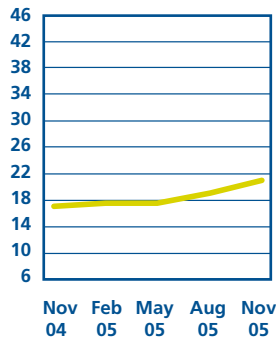
Waikato/Bay of Plenty/Gisborne
Nov 04 – Nov 05



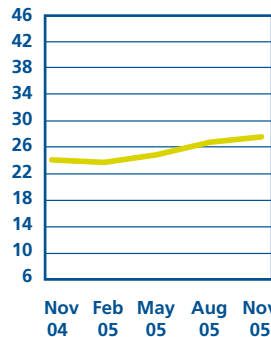
Hawke's Bay
Nov 04 – Nov 05



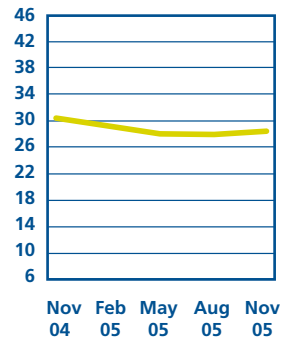
Taranaki
Nov 04 – Nov 05



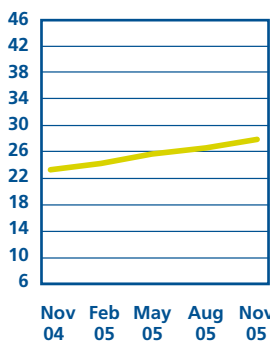
Manawatu/Wanganui
Nov 04 – Nov 05



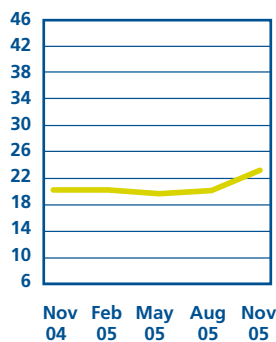
Wellington
Nov 04 – Nov 05



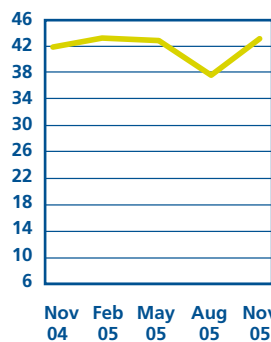
Nelson
Nov 04 – Nov 05



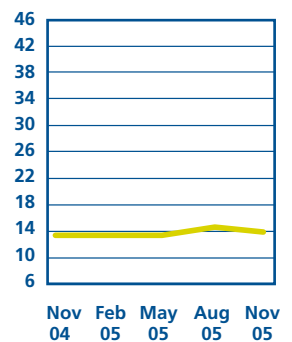
Canterbury/Westland
Nov 04 – Nov 05



Otago
Nov 04 – Nov 05



Central Otago Lakes
Nov 04 – Nov 05



Southland
Nov 04 – Nov 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. Ms Alison Smith is the Secretary/Treasurer. She may be contacted on +027 210 4440.

Professor R.V. (Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 350 5799 ext 7473.

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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.