



MASSEY UNIVERSITY

Home Affordability Report

Quarterly Survey August 2009, Volume 19 Number 3

Low Interest Rates Enhance Home Affordability

Over the quarter ending 31 August 2009 the all districts national affordability index improved by 2.3%, compared to an 8.5% improvement in the quarter ending May 2009. The August quarter recorded a slight reduction in the average weekly wage and an increase in house prices, but these two affordability drivers were more than offset by a 5% reduction in the average weighted mortgage interest rate. However, the current low interest rate environment may be difficult to sustain in a period when government stimulatory policies are scaled back, bank capital adequacy ratios are increased and there is possibly a shortage of credit.

Over the last quarter nine out of twelve regions showed improvements in affordability; Nelson/Marlborough 10.0%, Northland 8.9%, Manawatu/Wanganui 7.6%, Hawke's Bay 5.6%, Auckland 5.6%, Waikato 2.3%, Canterbury/Westland 1.5%, Wellington 0.9%, and Central Otago/Lakes 0.8%. Regions showing quarterly reductions in affordability were Southland 8.2%, Taranaki 4.1% and Otago 2.4%.

On an annual basis all districts affordability improved by 17.0%. Regional improvements in annual affordability were led by Manawatu/ Wanganui 28.4% with Hawkes Bay 24.3% in second place and Nelson/Marlborough 22.9% in third.. The remaining regions were ordered as follows; Northland 21.0%, Canterbury/ Westland 20.6%, Waikato/Bay of Plenty 20.1%, Central Otago/Lakes 18.1%, Otago 17.7%, Wellington 17.2%, Auckland 16.2%, Southland 12.7% and Taranaki 4.0%.

Central Otago Lakes remains the least affordable region with an index of 153.1% of the national average. Next comes the Auckland region at 122.5% followed by Wellington 101.8% which displaces Nelson/Marlborough 101.5%.

Southland retains its place as the most affordable region with an index of 64.4% of the national average. Manawatu/Wanganui stays in second place at 67.4% followed by Otago in third at 74.8%.

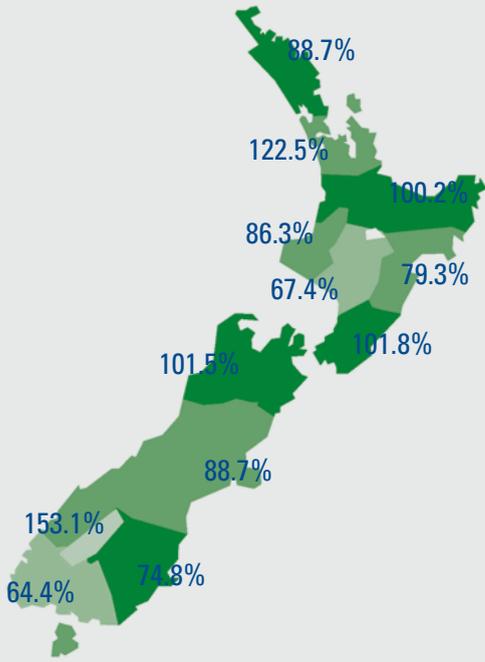
Further details on affordability and the methodology used in this survey are reported on the following pages.



Key Points:

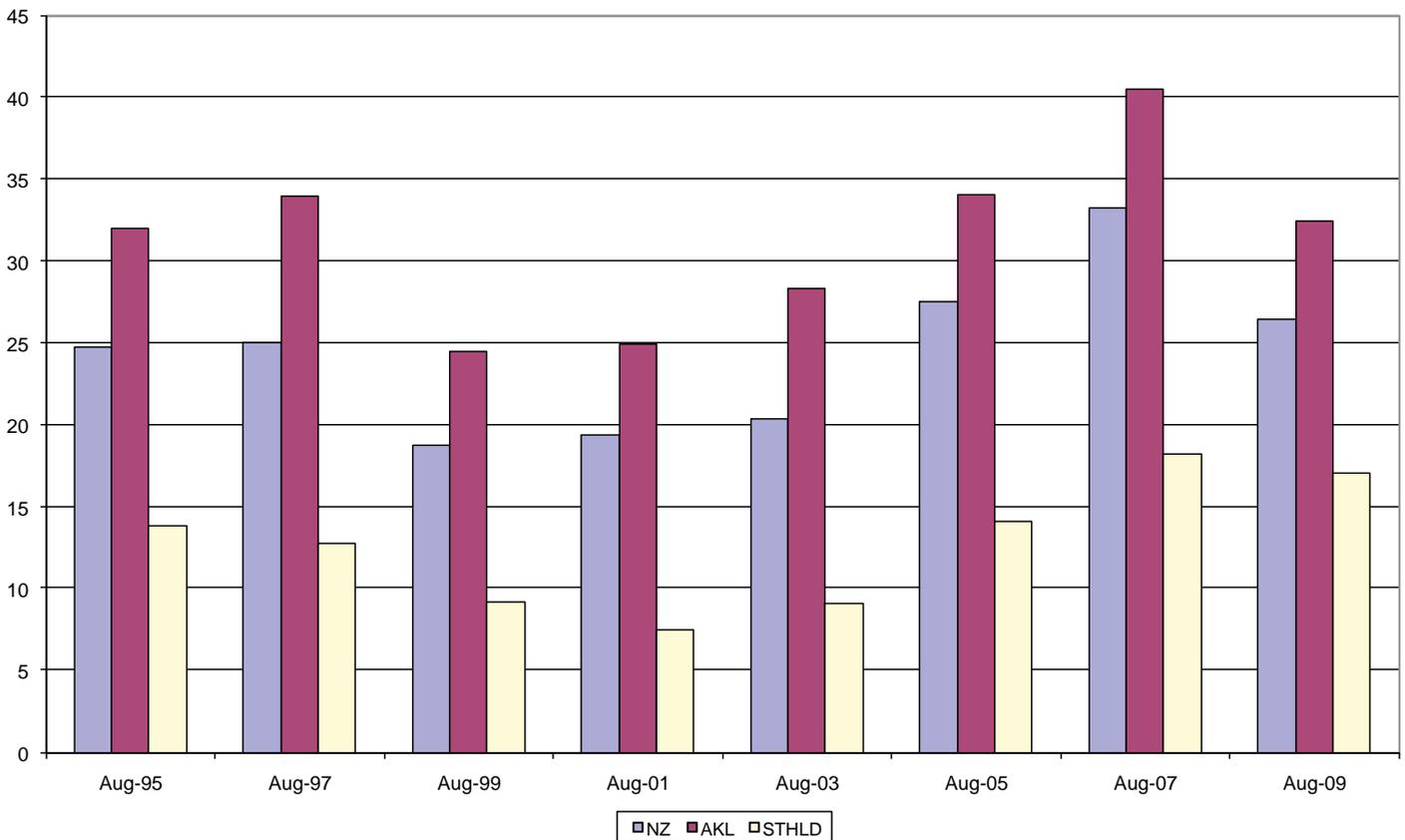
- **Low interest rates drive improvements in affordability.**
- **Improvement in national affordability slowed to 2.3% over the last quarter.**
- **National affordability improved 17.0% over the last year.**

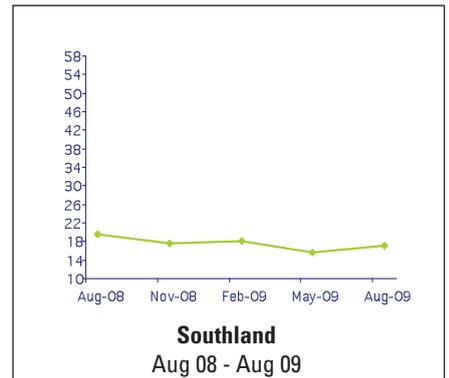
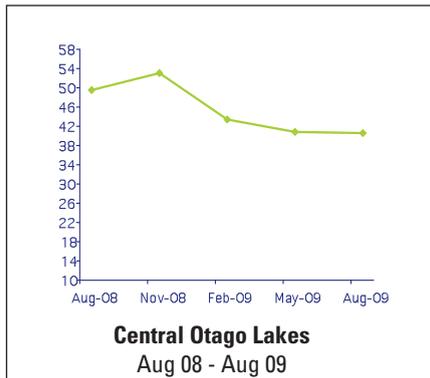
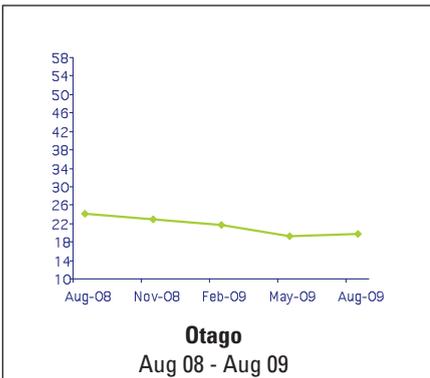
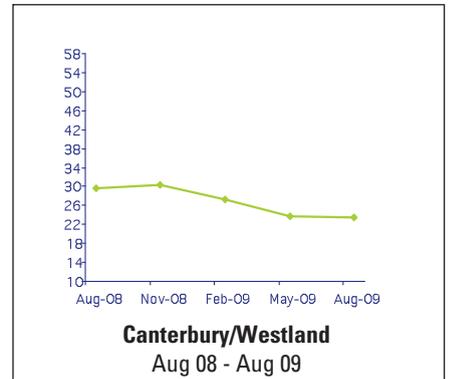
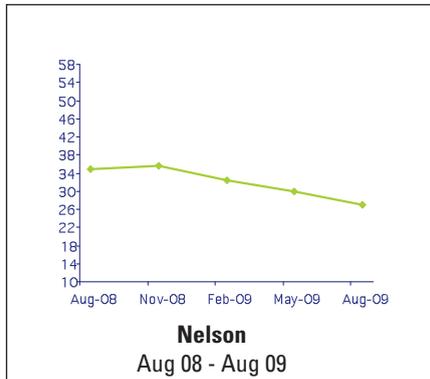
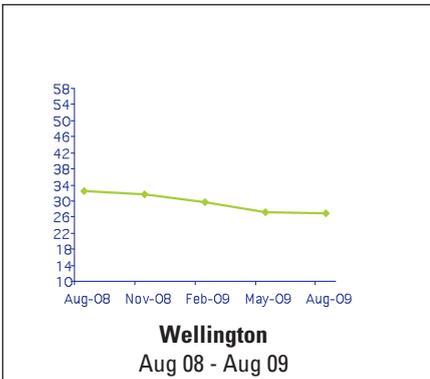
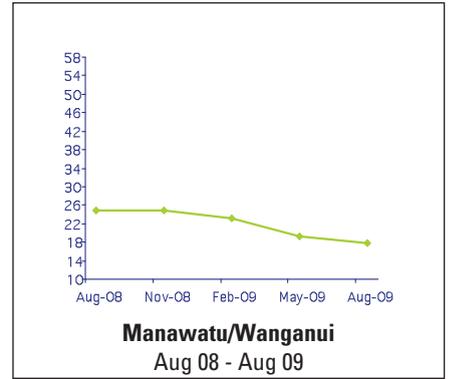
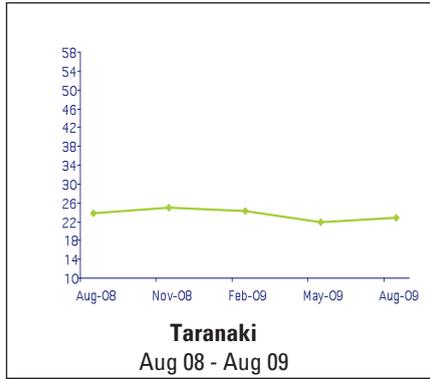
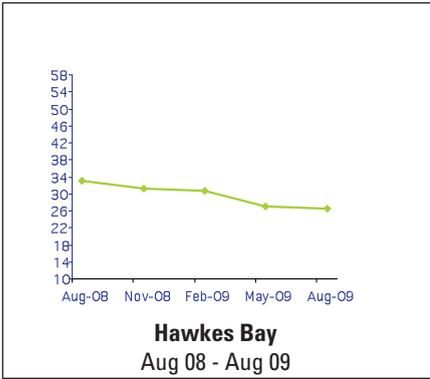
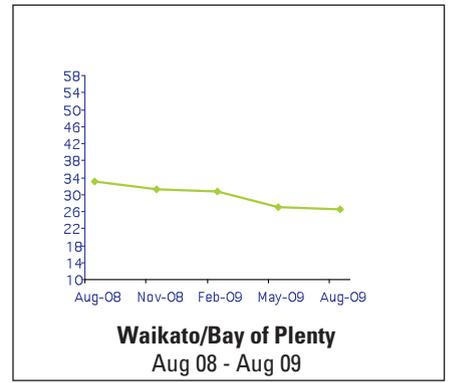
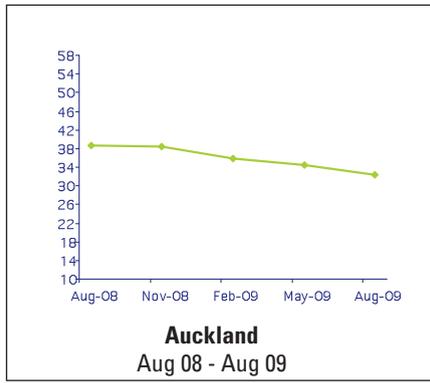
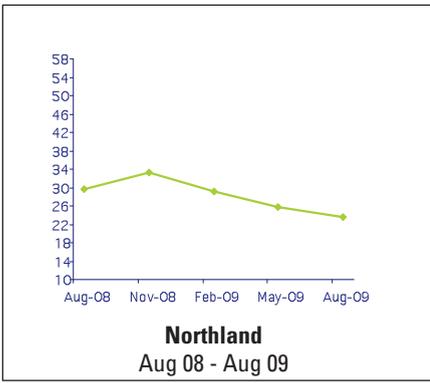
Regional Affordability as a percentage of National Average



Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	May 09	Aug 09	improvement	decline
Northland	25.8	23.5	8.9%	
Auckland	34.4	32.4	5.6%	
Waikato/Bay of Plenty	27.1	26.5	2.3%	
Hawke's Bay	22.2	21.0	5.6%	
Taranaki	21.9	22.8		4.1%
Manawatu/Wanganui	19.3	17.8	7.6%	
Wellington	27.2	26.9	0.9%	
Nelson/Marlborough	29.8	26.9	10.0%	
Canterbury/Westland	23.8	23.5	1.5%	
Otago	19.3	19.8		2.4%
Central Otago Lakes	40.8	40.5	0.8%	
Southland	15.7	17.0		8.2%
New Zealand	27.1	26.5	17.0%	

**NATIONAL HOME AFFORDABILITY INDEX
(a low index equals improved affordability)**





Regional Affordability Index



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 Bob Hargreaves & Fong Mee Chin
Department of Economics and Finance,
Massey University.

ENQUIRIES MAY BE ADDRESSED TO

Kathryn Farrow

Communications and Marketing

Massey University

Phone (09) 414 0800 extn 9421

Email k.farrow@massey.ac.nz

Website 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 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 Donna Dowse is the Secretary/Treasurer. She may be contacted on +64 6 3574032.

Professor R.V.(Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 3569099 extn 7473.

Department 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 departments and two schools within the Business Studies College. Professor R.V.(Bob) Hargreaves, leads the Property group and directs the Massey University Real Estate Analysis Unit (MUREAU).

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