

# Home Affordability Report



**Massey University**

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## Affordability Just Keeps Getting Harder

This edition of the Massey affordability publication shows there is little sign of light at the end of the tunnel for most first home buyers. Over the last five years national affordability has declined by 70% with a 2.5% decline during the quarter ending August 2007.

The current quarterly decline was mainly due to a 2.2% increase in the weighted mortgage interest rate. The other two affordability drivers (house prices and wages) were relatively static over this period.

On a regional basis there was some good news for first home buyers in Taranaki which showed a 4.5% quarterly improvement in affordability. The comparable figure for Manawatu/Wanganui was a 3.6% improvement. In both of these regions improvements in affordability were primarily driven by declines in the median house price. In addition, Northland showed a slight (0.9%) quarterly improvement in affordability.

Quarterly declines in affordability were seen in Central Otago Lakes (16.2%), Southland (10.3%), Otago (8.1%), Waikato/Bay of Plenty (6.7%), Nelson/Marlborough (4.8%), Wellington (3.1%), Hawkes Bay (2.6%), Canterbury/Westland (1.6%) and Auckland (1.3%).

On an annual basis national affordability declined by 13.2% with increases in house prices of 12.9% being greater than increases in the average weekly wage (4.5%) and increases in the weighted average interest rate on home loans (4.8%).

All regions recorded declines in annual affordability. The largest decline was in Northland (20.3%) followed by Southland (19.6%), Wellington (15.5%), Waikato/Bay of Plenty (14.5%), Canterbury/Westland (14.4%), Auckland (13.1%), Otago (10.5%), Nelson/Marlborough (10.0%), Hawkes Bay (9.0%), Manawatu/Wanganui (6.9%), Central Otago Lakes (4.7%) and Taranaki (4.6%).

Southland remains as clearly the most affordable region with the index at 54.6% of the national benchmark of 100%. Second place in the affordability stakes goes to Manawatu/Wanganui (67.8%) with Taranaki in third (72.2%).

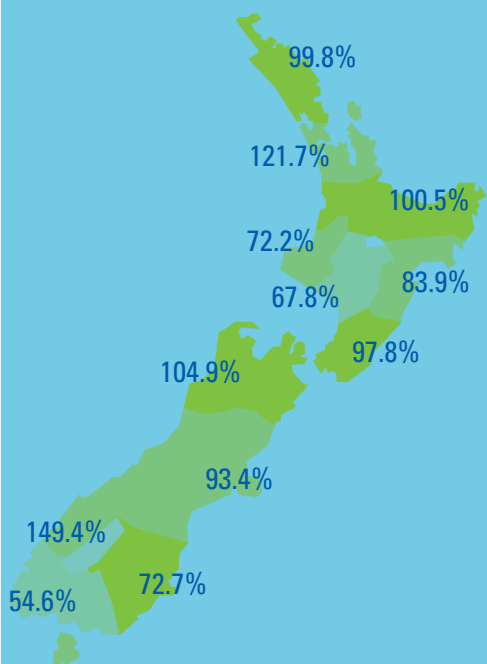
Central Otago Lakes remains the least affordable region with an index of 149.4% of the national average. The Auckland region (121.7%) takes second place followed by Nelson/Marlborough (104.9%) in third.

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

## Key points:

- **70% deterioration in affordability over the last five years.**
- **13.2% deterioration in affordability over the last twelve months.**
- **Taranaki leads quarterly improvements in regional affordability.**

**Regional Affordability as a percentage of National Average**

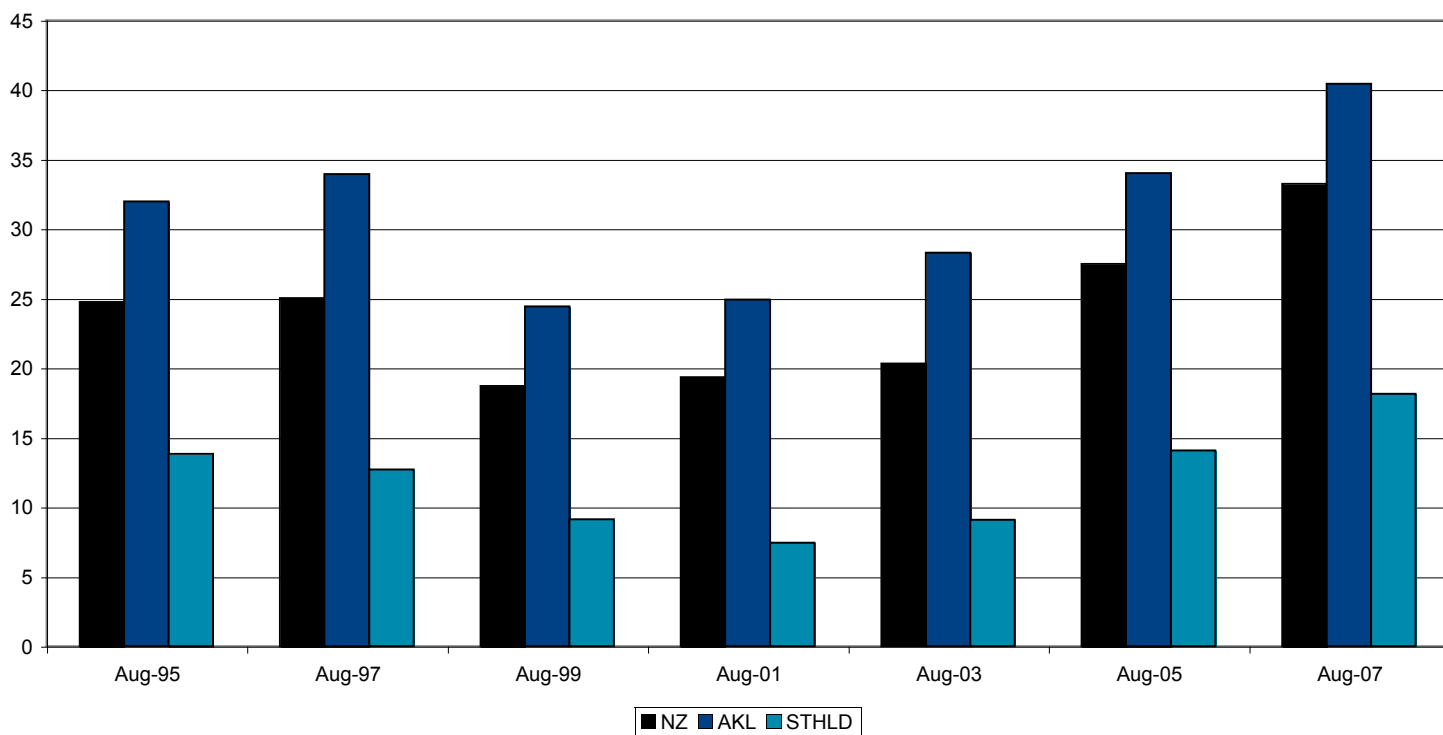


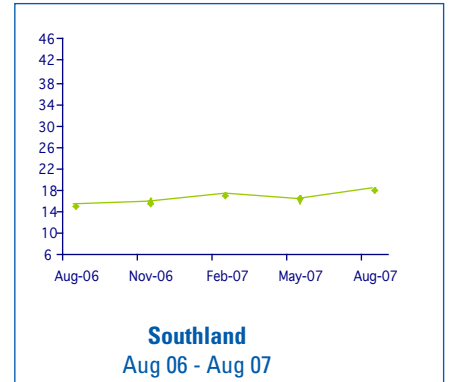
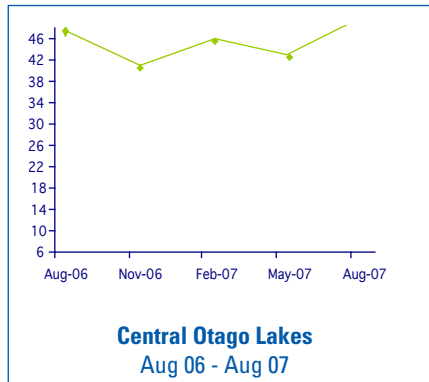
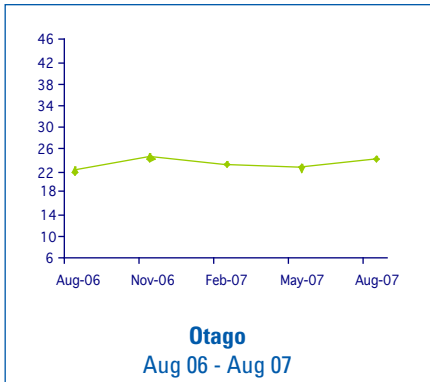
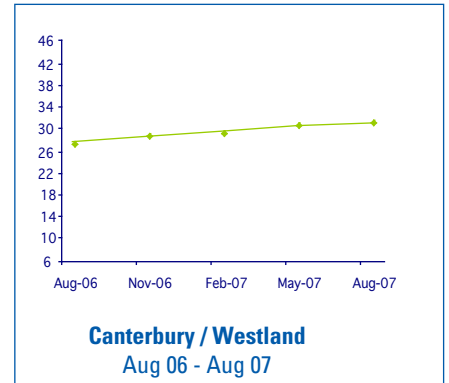
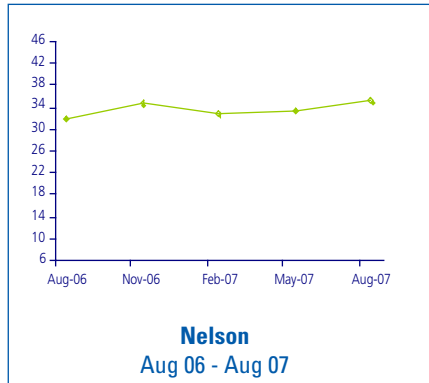
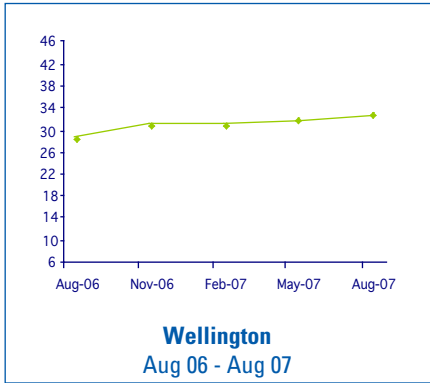
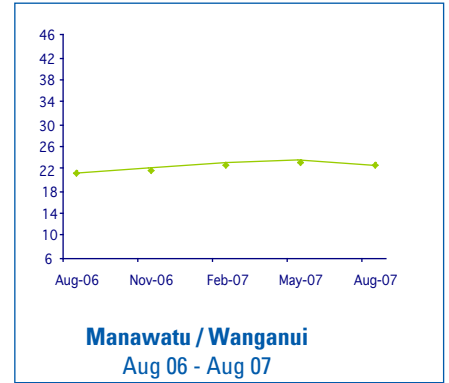
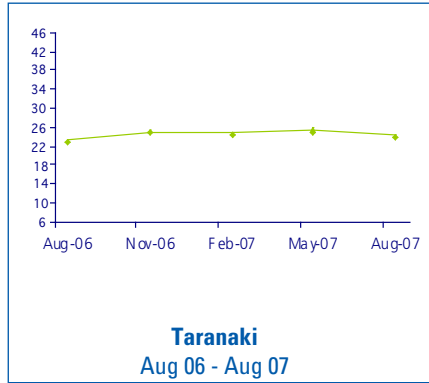
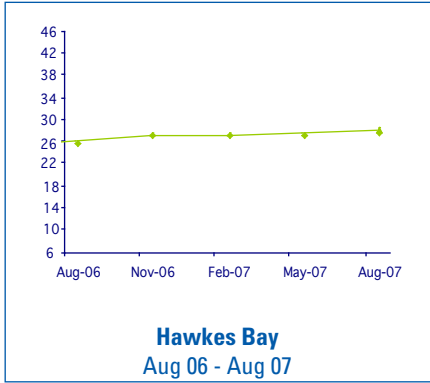
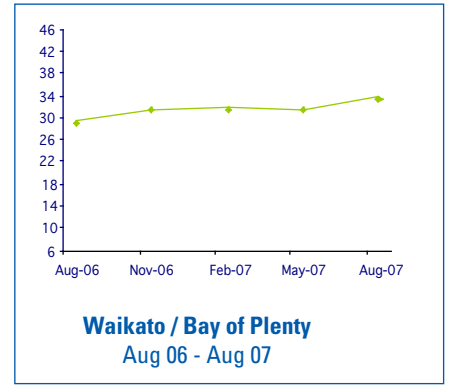
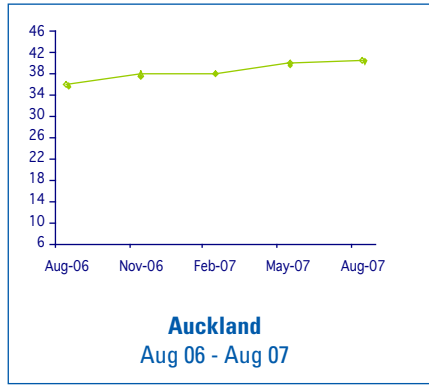
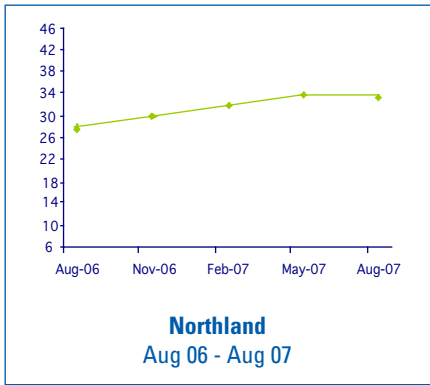
**Home Affordability Index**

**Percentage Change in Home Affordability in the last 12 months**

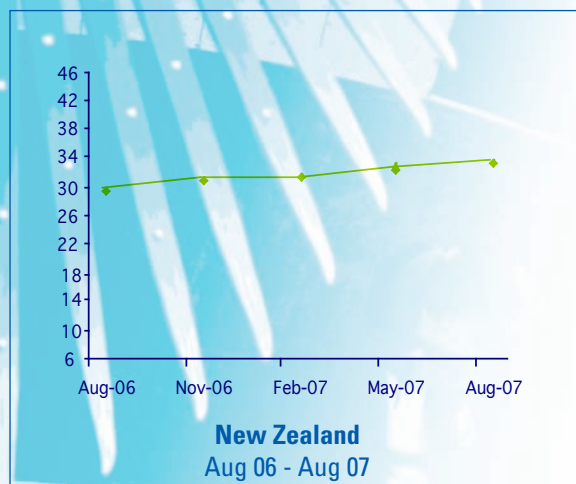
Region	Home Affordability Index		Percentage Change in Home Affordability in the last 12 months	
	May 07	Aug 07	improvement	decline
Northland	33.50	33.19		20.3%
Auckland	39.93	40.46		13.1%
Waikato / Bay of Plenty	31.33	33.43		14.5%
Hawke's Bay	27.16	27.88		9.0%
Taranaki	25.13	23.99		4.6%
Manawatu / Wanganui	23.38	22.54		6.9%
Wellington	31.53	32.52		15.5%
Nelson/Marlborough	33.29	34.88		10.0%
Canterbury / Westland	30.57	31.05		14.4%
Otago	22.36	24.17		10.5%
Central Otago Lakes	42.75	49.66		4.7%
Southland	16.46	18.16		19.6%
New Zealand	32.44	33.25		13.2%

**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.

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## 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 Auckland 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 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 and directs the Massey University Real Estate Analysis Unit (MUREAU).

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