

Home Affordability Report



Massey University

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Slow Down in House Prices helps Affordability

While there is still some debate about whether or not house prices have peaked there is no debate about the fact that the rate of house price increases slowed down over the second half of 2007. The classic signs for a slow down in house prices are the volume of transactions, time on the market and a build up in unsold inventory. All of these indicators are negative.

The median house price was \$350,000 in May 2007 and \$352,000 in November 2007, representing only a 0.57% increase. The other two drivers of home mortgage affordability are mortgage interest rates and average wage rates. Over the previous two quarters interest rates increased by 4% and this was only marginally offset by wage increases of 0.59%. The net result was the all districts affordability index continued to worsen, by 4.3% over six months and 1.8% over the last quarter in 2007.

On a regional basis affordability improved over the quarter in Central Otago/ Lakes (9.6%), Northland (1.7%) and Otago (0.4%). Waikato/Bay of Plenty was static over the quarter. All other regions showed declines in affordability. Leading the quarterly declines in affordability were Southland (22.2%), Manawatu/Wanganui (9.9%), Taranaki (9.1%) and Wellington (5.3%). Smaller declines were registered in Canterbury/Westland (3.0%), Hawkes Bay (2.4%), Northland (1.7%) and Auckland 1.0%).

On an annual basis the all districts national affordability declined by 9.6%. Otago showed a slight improvement in annual affordability (0.7%). All other regions recorded declines in annual affordability. The largest decline was in by Southland (39.7%), Manawatu/Wanganui (14.0%), Canterbury/Westland (12.2%), Wellington (11.2%) Central Otago Lakes (10.9%), Northland (9.3%), Auckland (8.6%), Waikato/Bay of Plenty (7.5%), Hawkes Bay (5.9%), Taranaki (4.8%), Nelson/Marlborough (1.8%).

Despite the recent massive increases in house prices Southland remains as the most affordable region with the index at 65.6% of the national benchmark of 100%. Second place in the affordability stakes goes to Otago (71.7%) with Manawatu/Wanganui (73.2%) in third.

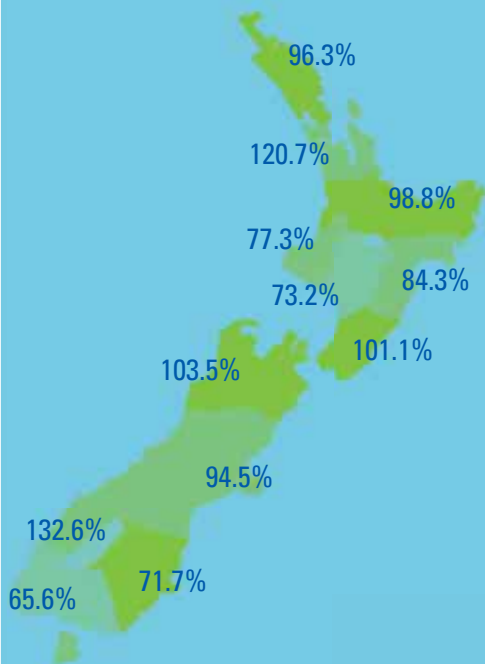
Central Otago Lakes remains the least affordable region with an index of 132.6% of the national average. The Auckland region (120.7%) takes second place followed by Nelson/Marlborough (103.5%) in third.

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

Key points:

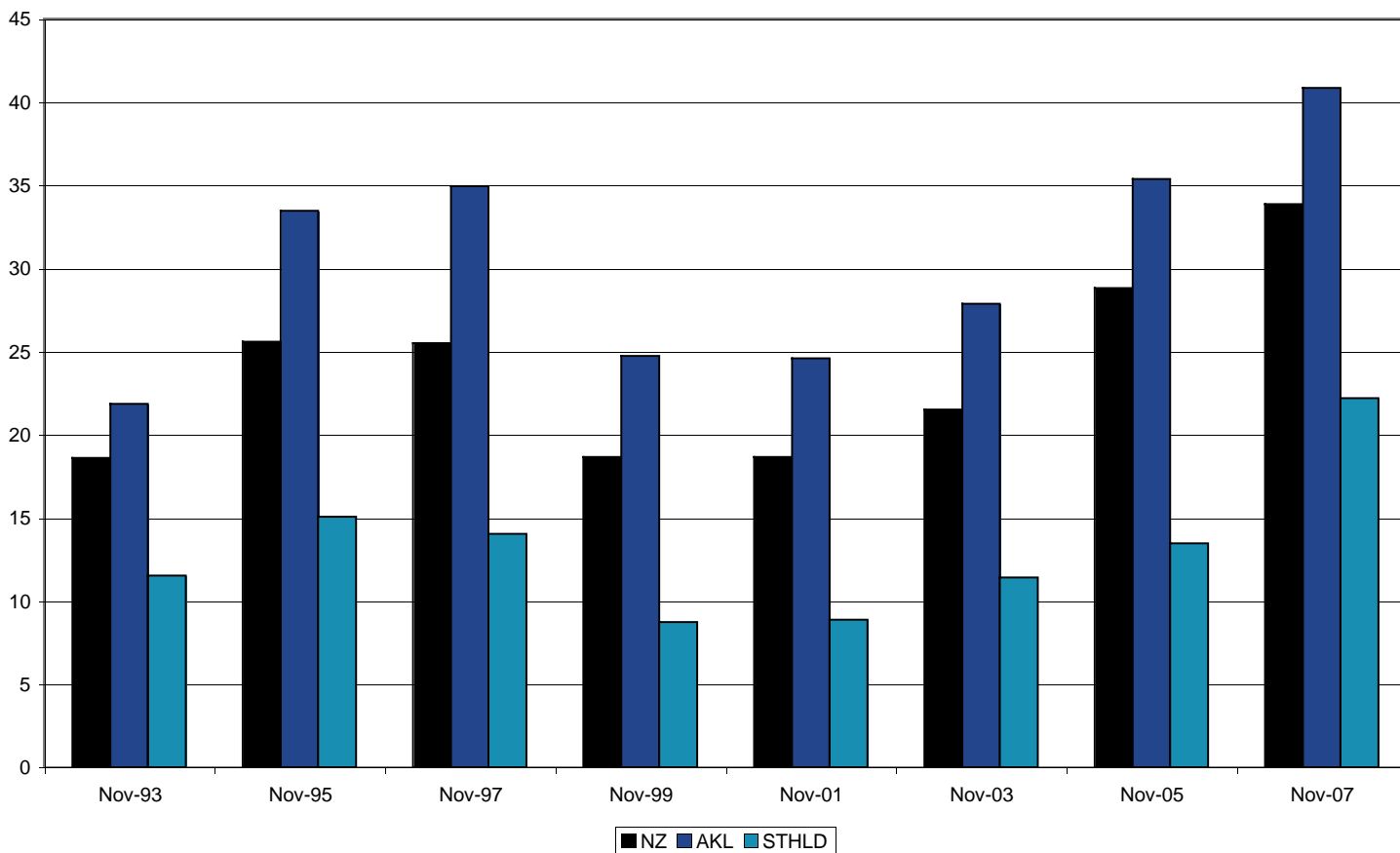
- **House price increases moderate in the second half of 2007.**
- **9.6% deterioration in the all districts affordability over the last year.**
- **Southland shows 37.9% deterioration in affordability over 12 months.**

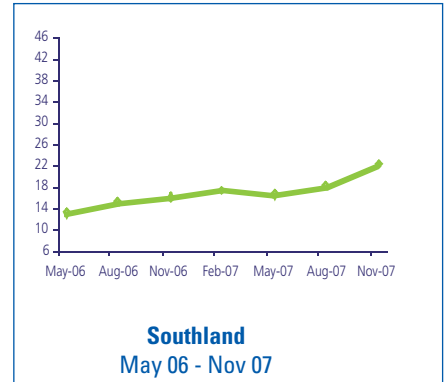
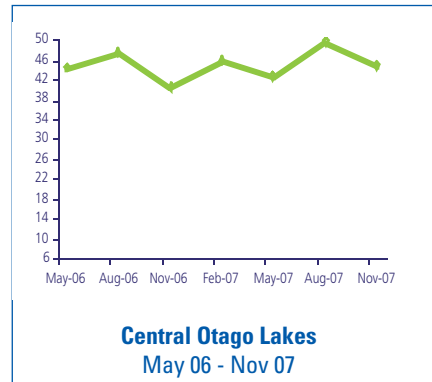
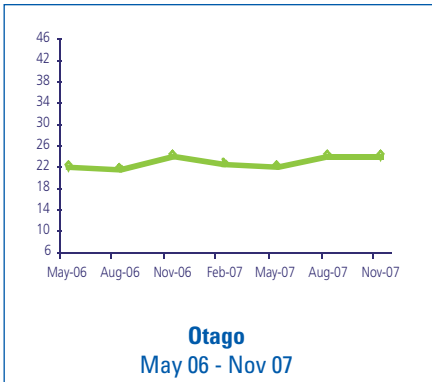
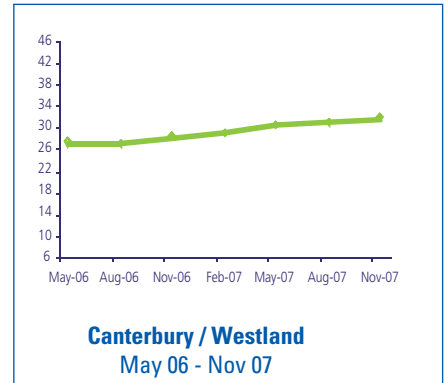
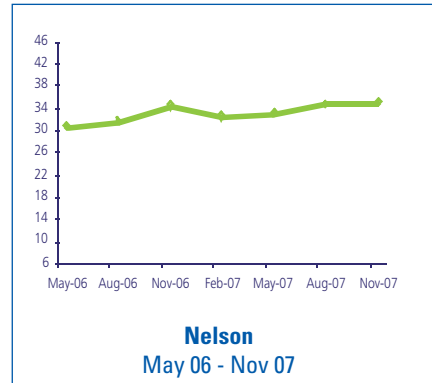
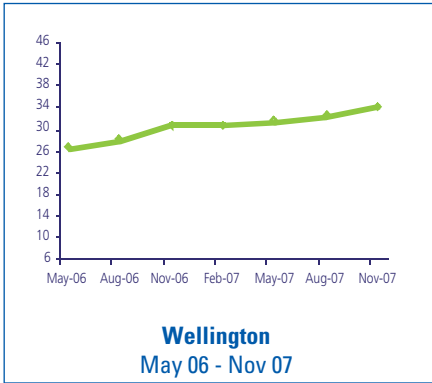
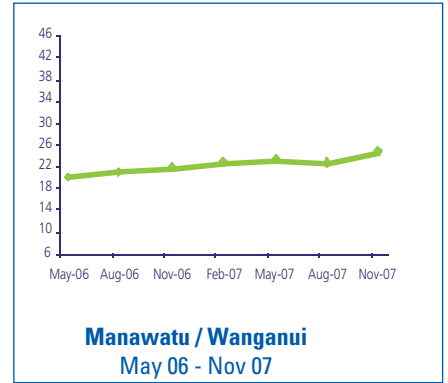
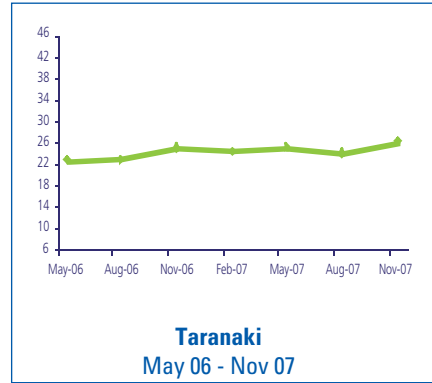
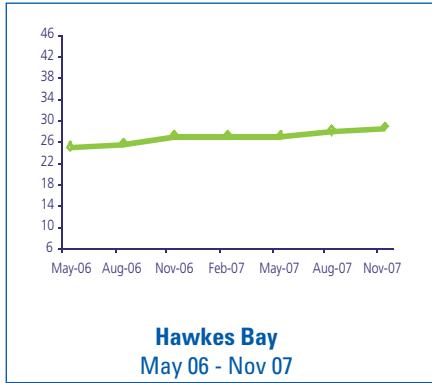
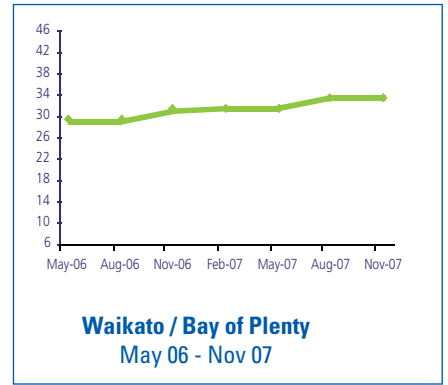
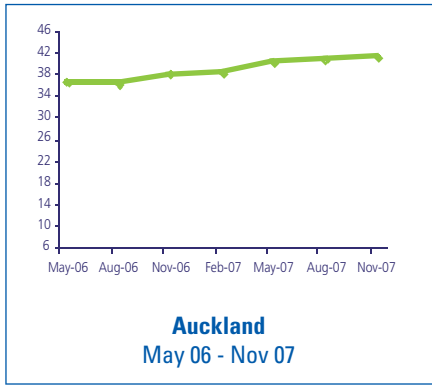
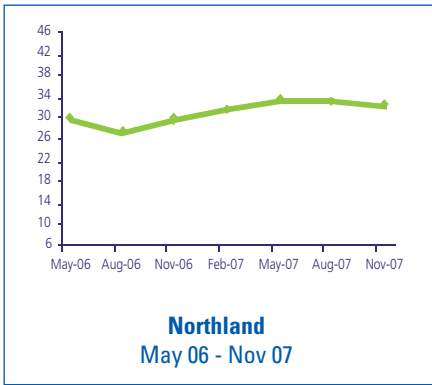
Regional Affordability as a percentage of National Average



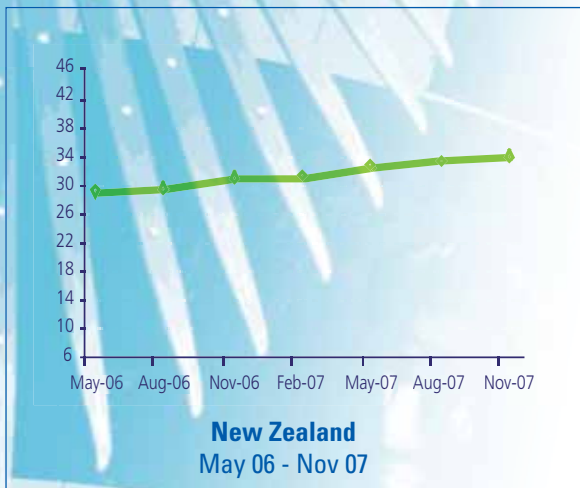
Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	Aug 07	Nov 07	improvement	decline
Northland	33.19	32.61		9.2%
Auckland	40.46	40.85		8.6%
Waikato / Bay of Plenty	33.43	33.44		7.5%
Hawke's Bay	27.88	28.54		5.9%
Taranaki	23.99	26.17		4.8%
Manawatu / Wanganui	22.54	24.78		14.0%
Wellington	32.52	34.24		11.2%
Nelson/Marlborough	34.88	35.04		1.8%
Canterbury / Westland	31.05	31.99		12.2%
Otago	24.17	24.08	0.7%	
Central Otago Lakes	49.66	44.90		10.9%
Southland	18.16	22.19		39.7%
New Zealand	33.25	33.86		9.6%

**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

Helen Vause
Communications and Marketing
Massey University

Phone (09) 414 0800 ext 9421

Email H.E.Vause@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 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 Economics and Finance, 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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