



MASSEY UNIVERSITY

Home Affordability Report

Quarterly Survey December 2010 | Volume 20 | Number 4

Small Quarterly Deterioration in Home Affordability

The all districts national affordability index deteriorated by (2.7%) during the quarter ending November 2010. Although the average weekly wage rate increased by \$7.41 over the quarter this was more than offset by a \$10,000 increase in the median house price to \$360,000. During this period the third affordability driver (average monthly mortgage interest rate) increased from 6.59% to 6.63%. The housing market continues to be characterised by very low turnover rates, a firming of house prices in Auckland, expectations that mortgage interest rates will not increase very much in the short term and continuing low wage growth in the economy.

Over the last quarter six out of twelve regions showed improvements in affordability; Central Otago Lakes 9.8%, Hawkes Bay 4.4%, Nelson/Marlborough 2.9%, Canterbury/Westland 2.3%, Southland 2.0% and Waikato/Bay of Plenty 0.6%. The six regions showing quarterly reductions in affordability were Auckland 6.4%, Manawatu/Wanganui 1.8%, Wellington 1.6%, Otago 1.8%, Northland 0.3%, and Taranaki 0.1%.

On an annual basis the all districts national affordability index improved by 4.8%, down on the previous period (9.7%). All regions showed improved annual affordability. Regional annual improvements were led by Northland 17.0%, Central Otago/Lakes was second at 13.1% with Hawkes Bay 12.4% in third. The remaining regions were ordered as follows; Otago 9.3%, Waikato/Bay of Plenty 7.2%, Taranaki 6.8%, Nelson/Marlborough 6.8%, Canterbury/Westland 6.5%, Southland 4.8%, Auckland 4.3%, Wellington 3.7% and Manawatu/Wanganui 3.0%.

Auckland with an index of 125.5% of the national average takes over from Central Otago Lakes (124.1%) as the least affordable region. Next was Wellington at 100.2% of the national average.

Southland retains its place as the most affordable region with an index of 58.8% of the national average, Otago is in second place at 67.3% followed by Manawatu/Wanganui in third at 71.3%.

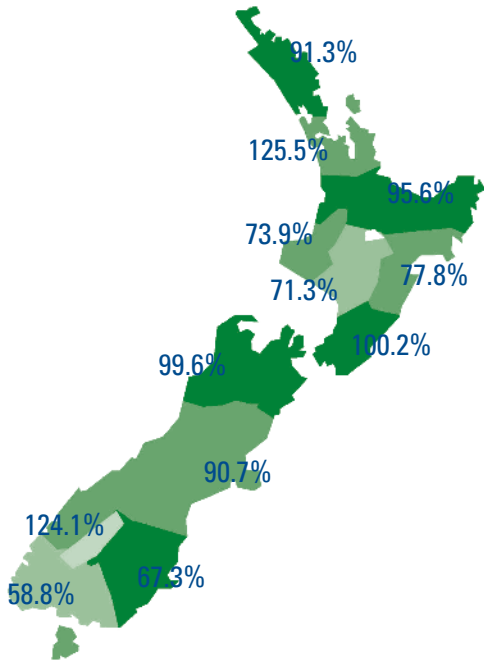
Further details on affordability and the methodology used in this survey are reported on the following pages.

Key Points:

- Quarterly deterioration in affordability (2.7%) reverses two years of improved affordability.
- Regional house prices remained subdued, apart from Auckland.
- National affordability improved 4.8% over the last year.

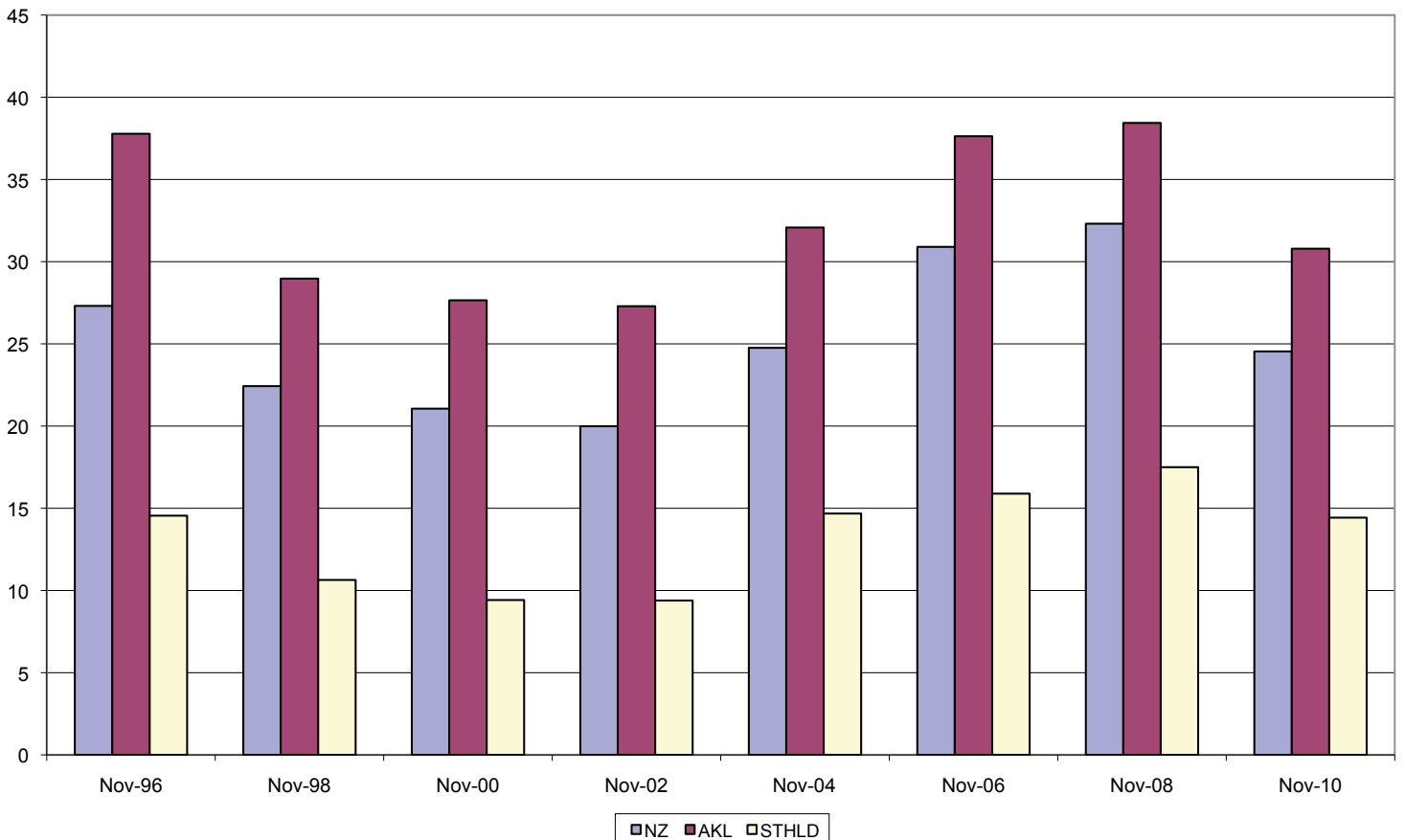


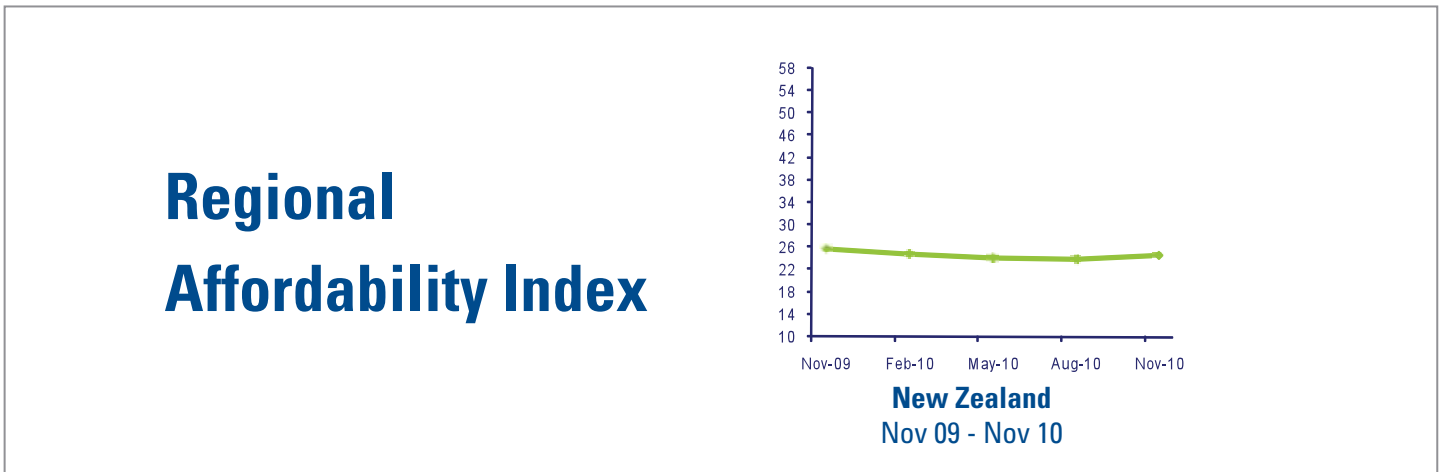
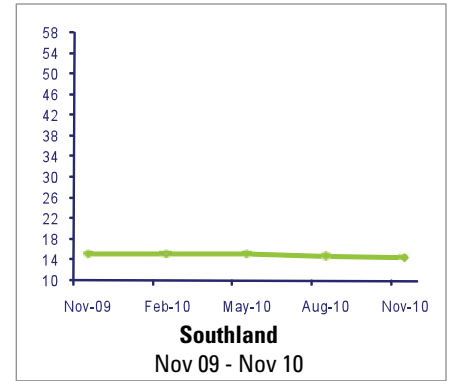
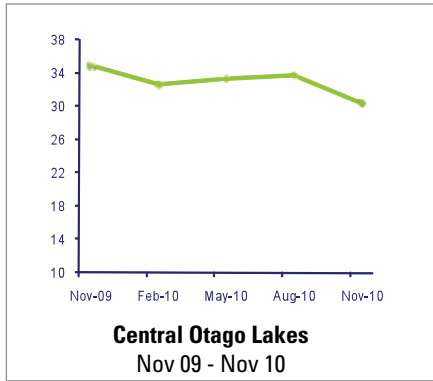
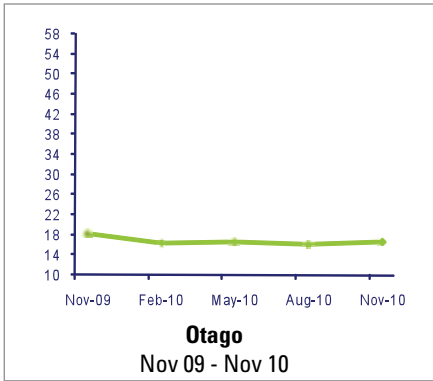
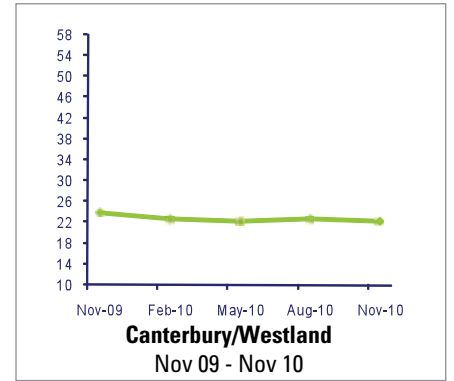
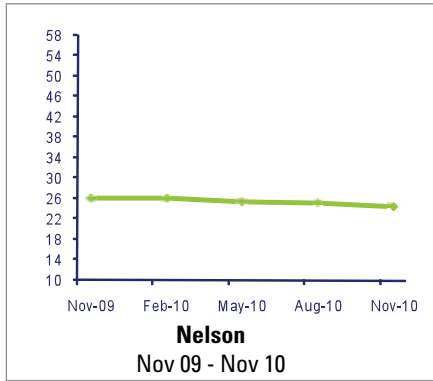
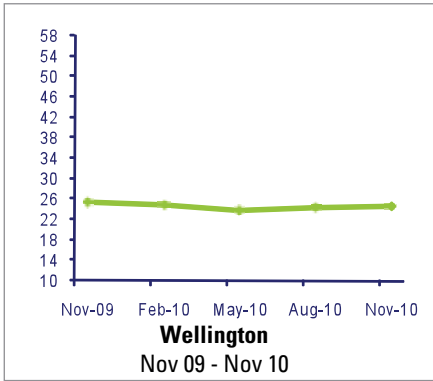
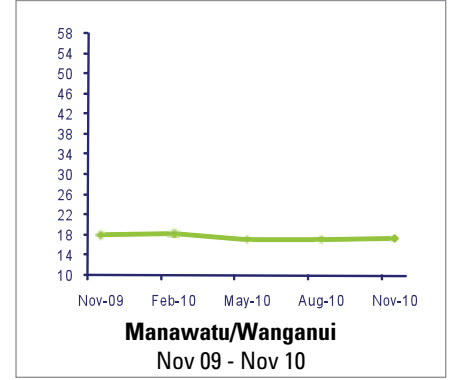
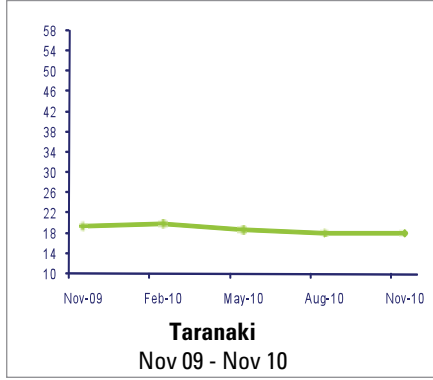
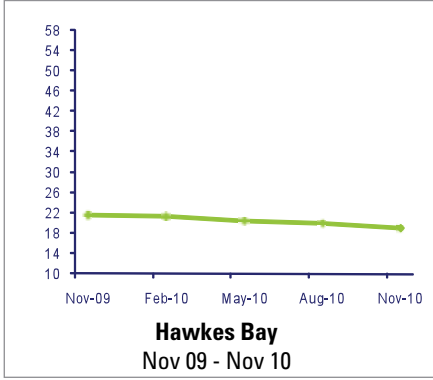
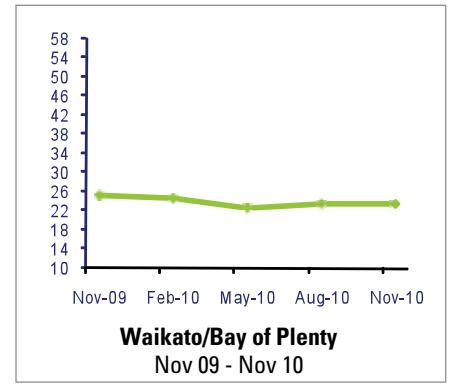
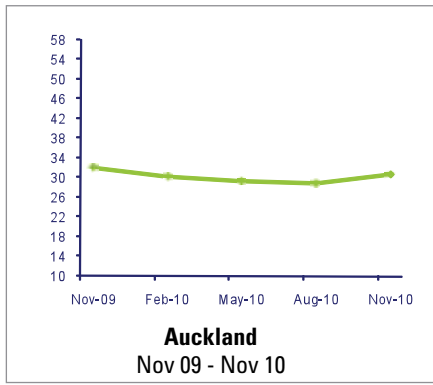
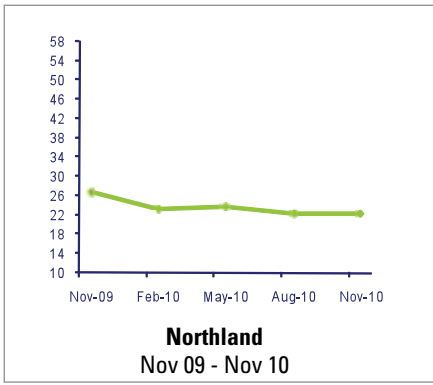
Regional Affordability as a percentage of National Average



Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	Aug 10	Nov 10	improvement	decline
Northland	22.3	22.4	17.0%	
Auckland	28.9	30.7	4.3%	
Waikato/Bay of Plenty	23.6	23.4	7.2%	
Hawke's Bay	19.9	19.0	12.4%	
Taranaki	18.1	18.1	6.8%	
Manawatu/Wanganui	17.1	17.4	3.0%	
Wellington	24.2	24.5	3.7%	
Nelson/Marlborough	25.1	24.4	6.8%	
Canterbury/Westland	22.7	22.2	6.5%	
Otago	16.2	16.5	9.3%	
Central Otago Lakes	33.7	30.4	13.1%	
Southland	14.7	14.4	4.8%	
New Zealand	23.8	24.5	4.8%	

**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. 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 3505799 ext 7473.

School 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 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).

Important Disclaimer

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